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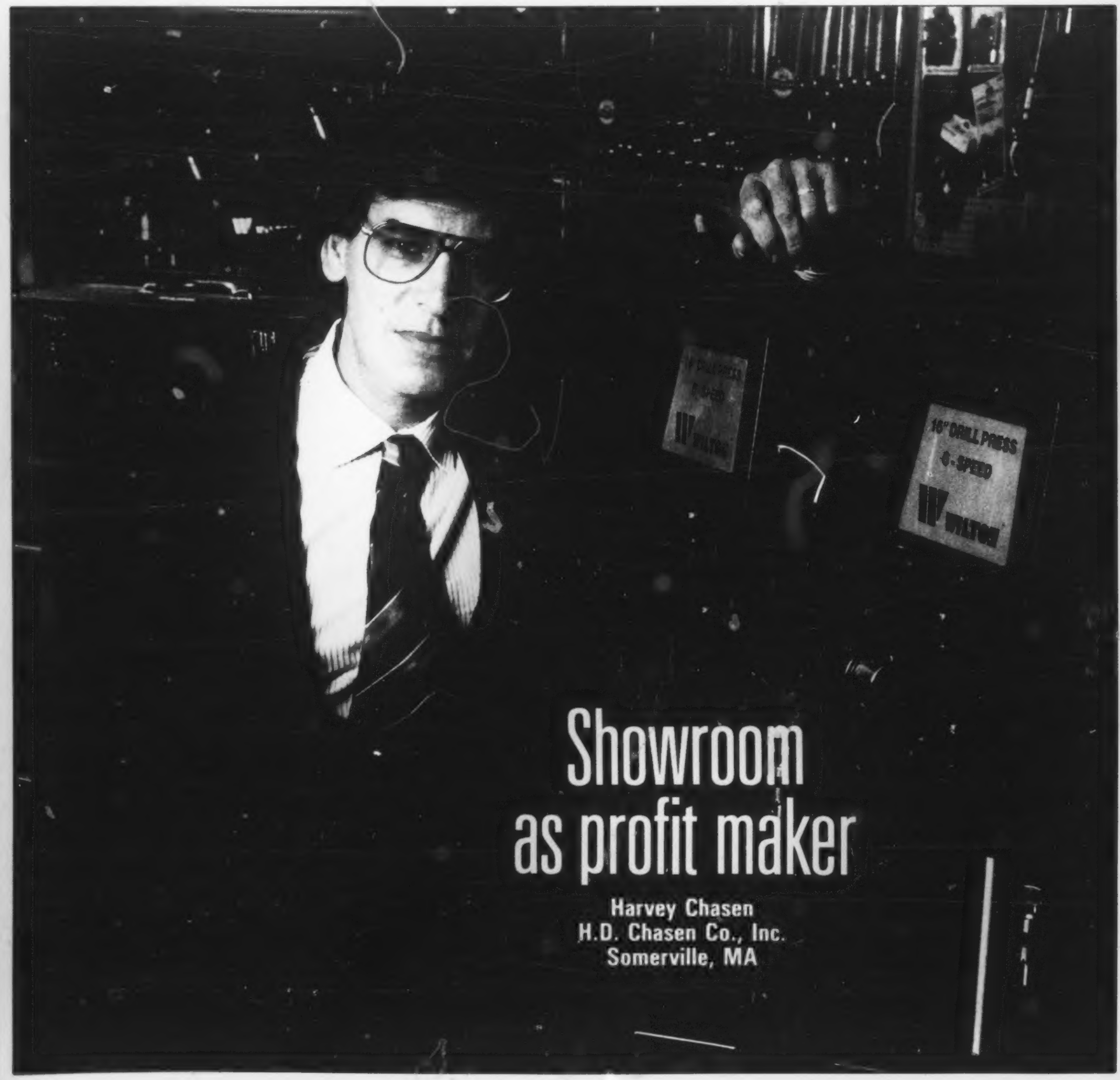
NOVEMBER 1988
A CAHNERS PUBLICATION

# Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

SPECIAL:

## Assessing computer needs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## Showroom as profit maker

Harvey Chasen
H.D. Chasen Co., Inc.
Somerville, MA

# Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 77, NO. 11

NOVEMBER 1988

A CAHNERS PUBLICATION

Harvey Chasen explains why he expects to double his display sales.

Cover photography by Dave Bradley

COVER STORY

**59 Showroom as profit maker**

With proper merchandising, your showroom can be an important profit maker. Distributors and manufacturers tell how to make your showroom area more productive.

ASSOCIATIONS

**49 Bob Clifton: A legacy of innovation**

Earlier this year Bob Clifton stepped down as executive vice president of NIDA, capping off more than 30 years in the distribution industry. Editorial Director George Berkwitt profiles this industry leader.

COMPUTERS

**69 Assessing computer needs**

Two experts discuss what you should look for in choosing a computer, whether you're a first-time buyer or want to upgrade.

SELLING

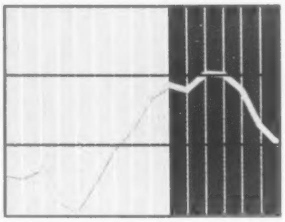
**75 A distribution maverick**

Charles Turner isn't your typical distributor. In fact, this Florida businessman breaks most of the "rules" in running his highly successful distributorship.

MANAGEMENT

**43 Inside Distribution**

**167 Business Report**



Small business is taking on new importance.

**171 Supply Outlook**

**174 Clifton on Management**

If you're going to run a successful distributorship, you have to be innovative.

SALES & MARKETING

**87 Strictly for Sales**

Get out of the office.

DISTRIBUTOR'S UPDATE

**9 Distribution Briefs**

I.D.A. conducts buying group survey . . . Interco enters industrial market . . . DISC's software surprises.

**11 News**

Preview of this month's STAFDA convention; U.S. settles bolts case with Ft. Worth distributor.

**39 Washington**

**91 Association News**

**92 Calendar**

Upcoming events of interest to distributors.

PROFITABLE IDEAS

**81 Technical Resources**

Review this listing to get up-to-date design aides from power transmission suppliers.

**97 Computers**

Wedging barcodes into your personal computers.

**103 New Products for Profit**

The latest products available from leading suppliers.

**141 Literature**

**170 Business Staff**

**172 Advertisers' Index**

**173 Classifieds**

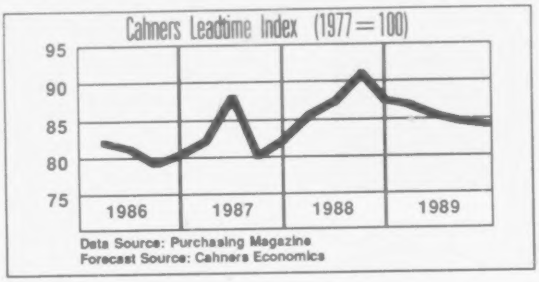
# SUPPLY OUTLOOK

BY KRIS BLEDOWSKI

# Operating rates are rising

*Process industries are at full capacity*

Tight supply conditions in the process industries are causing spot shortages and higher prices for many industrial materials. The situation is also starting to put upward pressure on prices of finished goods. Industrial production in the process industries rose a strong 5.1% in 1987 and provided the main thrust for the manufacturing sector's growth. Output in the early part of 1988 has continued at nearly the same pace, contributing to the supply problems. As a result, capacity utilization reached record-high levels. We forecast process industries to grow 4.5% in 1988.



Cahners Leadtime Index (1977=100)

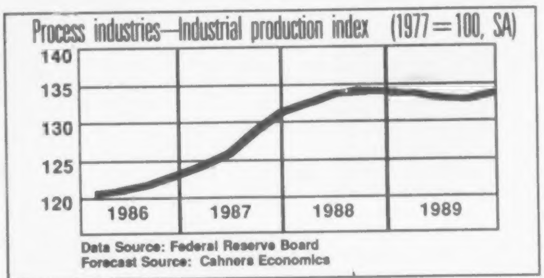
Data Source: Purchasing Magazine
Forecast Source: Cahners Economics

Operating rates for durable equipment have generally risen more than those for nondurable materials. Thus, advance processors are in a better position to meet rising demand than are firms in the process industries. The total industry capacity utilization rate reached 83.7% in August, up from 82.5% at the beginning of the year. The rate for nonelectrical machinery stood at 82.0%, up from 78.5%.

Industrial materials prices soared in the second half of 1987 and continued to climb in the first half of 1988. Chemical prices rose 12.2% in the first quarter of this year alone. We expect producer inflation to subside in 1989 due to expanded capacity and slower demand growth.

Total industrial production rose 0.8% in July and was up 5.8% compared to the same period a year before. The output index has increased 2.5% since the beginning of the year. Electronics, nonelectrical machinery and fabricated metals were among industries which registered the largest gains. Production is expected to continue rising until early next year.

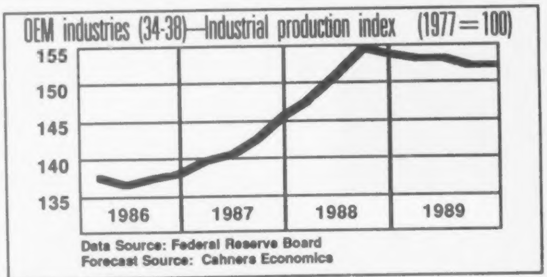
Tight capacity is pushing prices up in the consumer goods sector as well. The index of consumer packaged goods rose 0.3% in June. Growth in consumer demand is beginning to slow and should crest by the end of 1988. ☐



Process industries—Industrial production index (1977=100, SA)

Data Source: Federal Reserve Board
Forecast Source: Cahners Economics

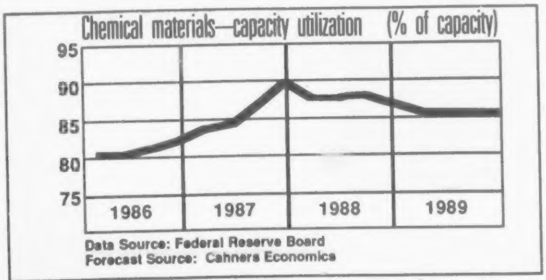
**After a solid 1987, process industries will continue to show strong performance this year as well.**



OEM industries (34-38)—Industrial production index (1977=100)

Data Source: Federal Reserve Board
Forecast Source: Cahners Economics

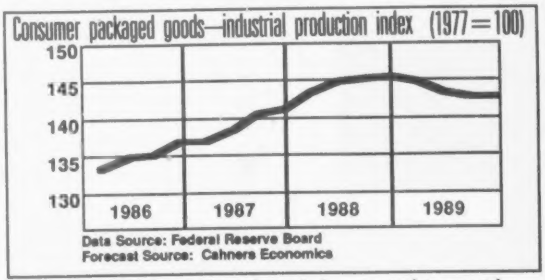
**Foreign orders are helping OEM grow almost 7% in 1988 before slowing down in 1989.**



Chemical materials—capacity utilization (% of capacity)

Data Source: Federal Reserve Board
Forecast Source: Cahners Economics

**Capacity utilization in the chemical sector should ease off at the beginning of 1989.**



Consumer packaged goods—industrial production index (1977=100)

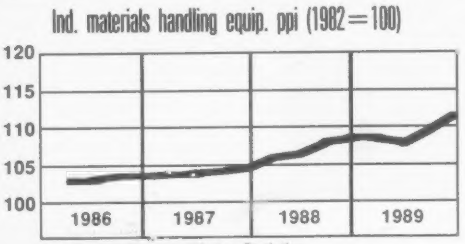
Data Source: Federal Reserve Board
Forecast Source: Cahners Economics

**Output of consumer packaged goods is expected to crest by the end of this year.**

# SUPPLY OUTLOOK

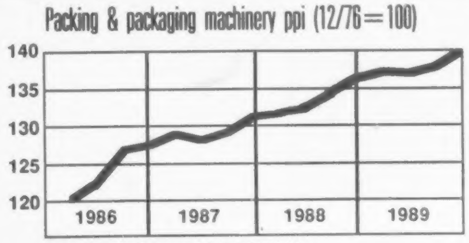
## Strong advances in producer prices

The Producer Price Index for intermediate materials and components rose 0.9% from May to June, more than in any recent month. The acceleration from 0.6% in May resulted primarily from the surge in the intermediate foods and feeds index. Electric power prices shot up 3.6%, mostly due to strong demand in hot weather. Large advances were also registered in primary metals, chemicals, paper, and some synthetic compounds. In the manufacturing category, prices for electronic components rose 1.4%, mainly due to a shortage of random access memory chips. Aircraft engines and motors also registered gains.



Data Source: Bureau of Labor Statistics
Forecast Source: Cahners Economics

**Prices for materials handling equipment will rise 3% this year and will continue to rise in '89.**



Data Source: Bureau of Labor Statistics
Forecast Source: Cahners Economics

**The producer price index for packing materials and packaging machinery will move in step with inflation.**

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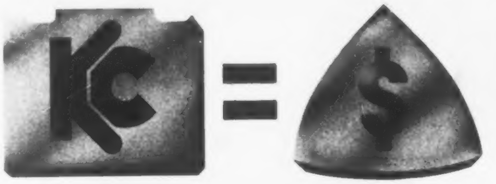

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JANUARY 1989
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# Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

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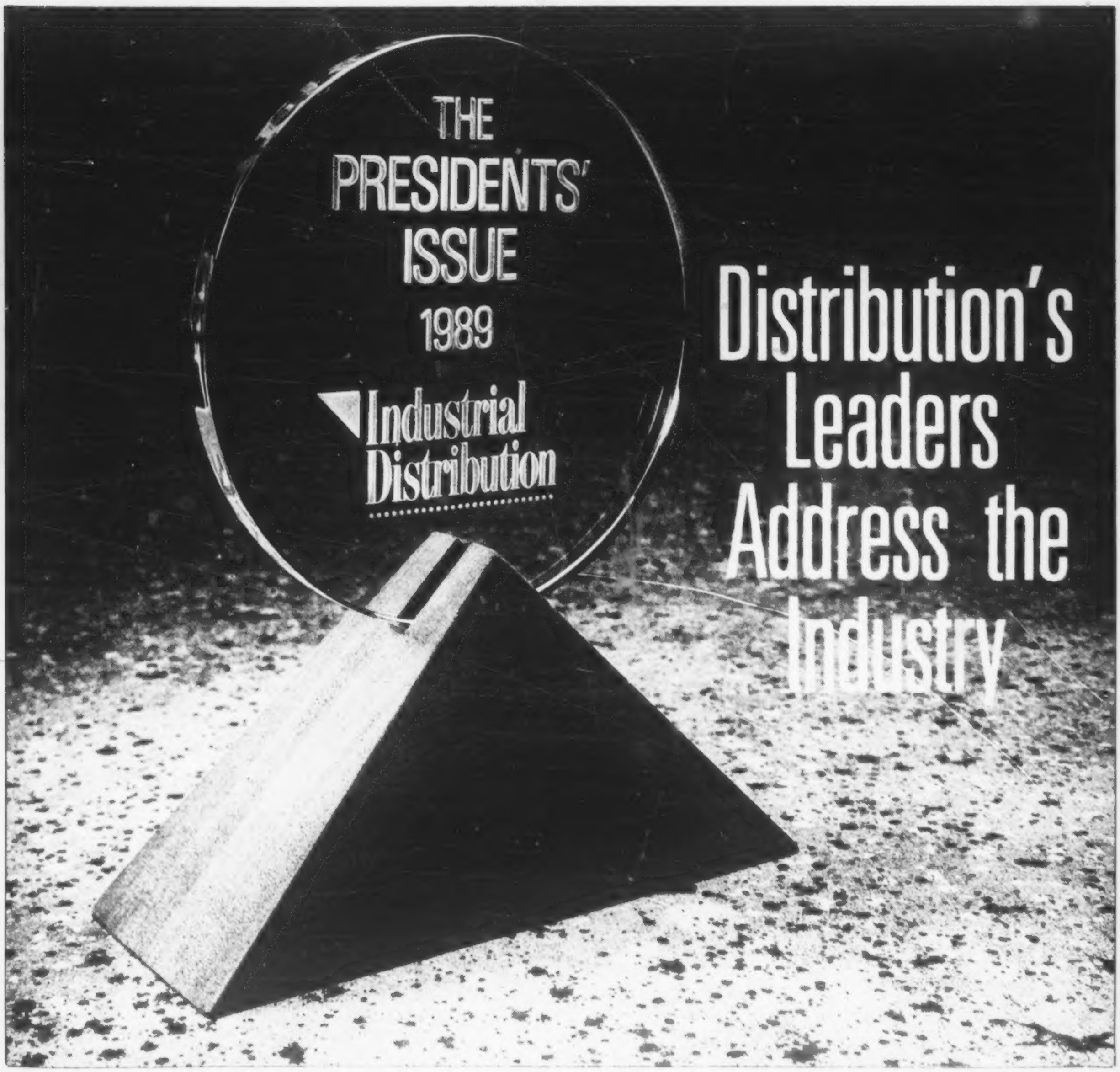
THE
PRESIDENTS'
ISSUE
1989
Industrial
Distribution

## Distribution's Leaders Address the Industry

# Industrial Distribution®

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 78, NO. 1

JANUARY 1989

A CAHNERS PUBLICATION

cover photography by Dave Bradley

COVER STORY

## 30 The Presidents' Issue

**ID** salutes the presidents of eight major distribution associations and two manufacturing associations. These industry leaders discuss the need for leadership and talk about their groups, the outlook for '89 and what each sees as the major challenges ahead.

MARKETS

## 45 Confirming quality

Dramatic changes are taking place in selling measuring and gaging tools.

SPECIAL FEATURE

This month, **ID** presents a separate cutting tools, abrasives and accessories supplement. In this special supplement, **ID** describes the markets for cutting tools and abrasives and gives forecasts for '89. We also profile a Connecticut distributor who has captured a large share of the $7 million cutting tool business at United Technologies' Hamilton Standard Div.

### MANAGEMENT

**29 Inside Distribution**

**74 Clifton's View**

Choosing the right salesperson.

### SALES & MARKETING

**49 Strictly for Sales**

Engineers can provide valuable support to your sales staff.

### DISTRIBUTOR'S UPDATE

**7 Distribution Briefs**

Boring-Smith buys Dixie Industrial; Garrett Industrial on the sales block.

**9 News**

Preliminary anti-dumping duties are causing pricing problems for bearings distributors; Central States joins I.D.A.'s fold.

**25 Washington**

**27 Letters**

**50 Calendar**

**53 Association News**

### PROFITABLE IDEAS

**55 Computers**

Here's what to look for in selecting the right printer.

**57 Tech Notebook**

How to calculate ball bearing capacity.

**59 New Products**

Profitable new products offered by leading suppliers.

**69 Literature**

New brochures, catalogs and data sheets from selected manufacturers.

**71 Business Staff**

**72 Classifieds**

**73 Advertisers' Index**

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# DOC ruling stirs up bearings market

*Distributors say preliminary anti-dumping duties have caused confusion; many find it difficult to develop consistent pricing*

Dramatic price increases on imported bearings, in some cases well over 200%, have thrown the industry into a pricing tizzy.

Several leading foreign bearings producers opted to raise prices following the Dept. of Commerce's (DOC) preliminary ruling last November that imports of anti-friction bearings were being sold in U.S. markets at less than fair value.

The ruling, based on a lawsuit filed last March by the Torrington Co., named West Germany, France, Italy. Japan, Romania, Singapore, Sweden, Thailand, and the United Kingdom. Together, the nine countries accounted for about $500 million in imports during 1987 (see chart). The product categories specified by the DOC included ball, spherical roller, cylindrical roller, needle roller, and plain bearings.

The price increases are based on the preliminary dumping penalties set by the DOC. The duties ranged from 0.48% to 225%, with most falling between 20% and 80%. Some of the foreign producers reported to have raised prices to offset the penalties include NSK Corp., SNR Bearings, SKF Industries, and IKO Bearings. The duties are currently being held in escrow, pending the DOC's final determination. The importers will then either be reimbursed or pay the difference, based on the DOC's final ruling.

## Preliminary Duties on Anti-friction Bearings

| Countries | U.S. Imports (1987) | Companies | Ball Bearings and Parts | Spherical Roller Bearings and Parts | Cylindrical Roller Bearings and Parts | Needle Roller Bearings and Parts | Plain Bearings and Parts |
|---|---|---|---|---|---|---|---|
| Fed. Republic of Germany | $117,081,090 | FAG | 80.38% | 48.47% | 52.96% | 115.40% | 85.39% |
| | | GMN | 21.52 | N/A | N/A | N/A | N/A |
| | | INA | 30.60 | N/A | 10.05 | 42.79 | N/A |
| | | SKF | 132.25 | N/A | 76.27 | 55.86 | 118.98 |
| | | All others | 70.04 | 48.47 | 52.46 | 48.97 | 115.89 |
| France | $24,782,978 | INA | 65.80 | N/A | 79.52 | 0.48* | N/A |
| | | SKF | 90.42 | 24.84 | N/A | N/A | N/A |
| | | SNR | 63.77 | N/A | 22.60 | N/A | N/A |
| | | All others | 84.07 | 24.84 | 78.59 | 0.48* | 0* |
| Italy | $25,291,370 | FAG | 42.05 | N/A | N/A | N/A | N/A |
| | | ICSA | N/A | 5.76 | N/A | N/A | N/A |
| | | SKF | 155.99 | N/A | 35.60 | 153.60 | N/A |
| | | All others | 129.20 | 5.76 | 35.60 | 153.60 | 0* |
| Japan | $209,434,715 | Koyo | 73.55 | 40.18 | 51.21 | 128.25 | N/A |
| | | Minebea | 106.61 | N/A | N/A | N/A | 225.68 |
| | | Nachi | 43.47 | 11.20 | 2.71 | N/A | N/A |
| | | NSK | 56.32 | 12.46 | 10.69 | N/A | N/A |
| | | NTN | 25.65 | 3.91 | 3.40 | 147.35 | 91.51 |
| | | All others | 44.76 | 9.79 | 28.86 | 129.14 | 217.31 |
| Romania | $12,351,448 | TIE | 46.91 | 28.01 | Investigation Rescinded | Investigation Rescinded | Investigation Rescinded |
| | | All others | 46.91 | 28.01 | | | |
| Singapore | $29,502,197 | NMB/Pelmec | 73.55 | Investigation Rescinded | Investigation Rescinded | Investigation Rescinded | Investigation Rescinded |
| | | All others | 73.55 | | | | |
| Sweden | $20,545,579 | SKF | 162.52 | 22.37 | 24.30 | N/A | N/A |
| | | All others | 162.52 | 22.37 | 24.30 | N/A | 0* |
| Thailand | $14,545,962 | NMB/Pelmec | 1.34 | Investigation Rescinded | Investigation Rescinded | Investigation Rescinded | Investigation Rescinded |
| | | All others | 1.34 | | | | |
| United Kingdom | $28,876,744 | INA | N/A | N/A | N/A | 174.17 | N/A |
| | | RHP | 32.15 | N/A | 45.56 | N/A | N/A |
| | | Rose | N/A | N/A | N/A | N/A | 0* |
| | | SKF | 205.07 | 24.82 | N/A | N/A | N/A |
| | | All others | 131.86 | 24.82 | 45.56 | 174.17 | 0* |
| Total imports | $482,412,083 | | | | | | |

*When margins are 0.5 or below, the Dept. of Commerce makes a negative determination and duties are not collected.

Import statistics are compiled from official statistics of the U.S. Dept. of Commerce

**Penalties paid to the U.S. government by importers are based on margins set by the DOC. The margin is the percentage difference between an import's cost and its fair value, which is generally the product's price in its home market.**

**DISTRIBUTORS CONCERNED**

Michael Wolf, president of Philadelphia Ball & Roller Bearing (Philadelphia, PA), underscored the difficulty the anti-dumping duties have placed on a distributor's ability to set consistent pricing.

"We have to handle each order as a separate entity because the price increase varies from manufacturer to manufacturer and product to product," he said. "I'm very careful about what I buy right now, because nothing's set in concrete. The price could change once the final duties are set."

While Wolf was cautious, Alan Haveson, president of Eastern Bearing (Elizabeth, NJ) was strident. "What this amounts to is an assault on the consumer," Haveson said.

Haveson noted that the prevailing thinking in the industry is that demand will be met by a combination of domestic manufacturers picking up the slack and foreign producers expanding their U.S. production facilities. But he maintained that the reality is that American manufacturers are barely meeting existing demand and it will take several months for foreign producers to gear up their

*[continued on pg. 14]*

## AFBMA: 232 denial is no surprise

WASHINGTON, DC—President Reagan's recent denial of a petition by domestic bearing manufacturers to impose quotas on importers based on national security considerations came as little surprise to the industry's leading trade group.

Michael Payne, president of the Anti-Friction Bearing Manufacturers Assn. (AFBMA), the group which filed the petition over a year ago, noted that the reasons behind the administration's decision were threefold.

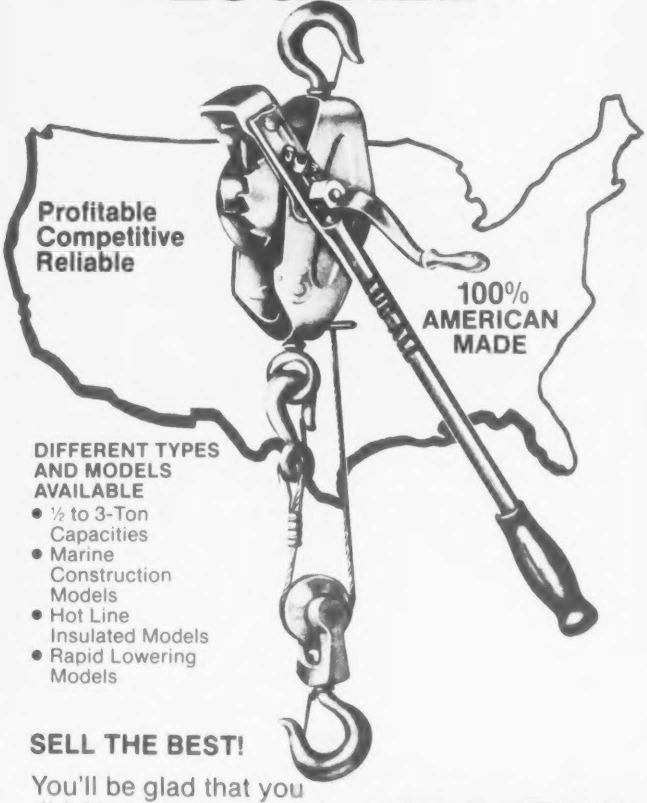
First, Payne noted that the action by the Dept. of Defense (DOD) last August requiring DOD to purchase domestic bearings "when available" is designed to help revitalize the domestic bearings industry.

Second, he said that during the past six months, the U.S. bearings industry has been operating at or near capacity in most product lines. Any attempt to impose quotas at this time could exacerbate the supply shortages the industry is currently facing.

And finally, Payne speculated that the preliminary anti-dumping duties imposed by the Dept. of Commerce (DOC) in the Torrington case (see lead story) may have had an impact on the DOC's final recommendation to the White House not to impose quotas.

At issue was the AFBMA's contention that imports of anti-friction bearings posed a threat to national security. Under Section 232 of the Trade Expansion Act of 1962, the DOC may conduct an investigation if it determines that an industry has been so severely impacted by imports that the nation's security is at risk.

Although the DOC's report found that bearings are fundamental to every defense weapon system, its final determination was that the domestic bearing industry would be able to meet "most, but not all, national security requirements in the event of a major conventional war." ☐



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"The result in the short run will probably be even greater shortages, which will send prices even higher," said Haveson. "Since bearings are used in almost every manufactured product, the consumer will pay in the end."

But Jean-Paul Montupet, president of King Bearing, Inc. (Costa Mesa, CA), while admitting he was wrestling with the pricing issue, said that Torrington was justified in filing the action.

"The truth is that the situation in the U.S. bearings market was unsound," Montupet said. "Since we sell predominantly domestic products, in the long run the Torrington case will help strengthen our competitive position."

George LaMore, CEO of Cleveland-based Bearings, Inc., was even more upbeat. "As far as I'm concerned the message is clear," LaMore said. "There's no doubt in my mind that American producers can compete if they're provided with a level playing field."

Echoing LaMore's sentiments was Thomas E. Bennett, president of Torrington, who hailed the ruling. Bennett said that dumping margins exceeding 50% indicate that domestic producers have been losing several million dollars a year because of unfairly priced imports. "Such reductions in sales and profitability can only be described as staggering," he noted.

The DOC is expected to make its final determination on the Torrington case later this month. Once DOC rules, the International Trade Commission (ITC) will rule on whether the industry was "materially injured." If the ITC rules that the bearings industry was injured, DOC then instructs U.S. Customs to collect final anti-dumping duties. ☐

## ID's book on selling covers ten key product groups

NEWTON, MA—Need some sales tips? In a new booklet, *Selling the Industrial Market*, the editors of **ID** have compiled a collection of past **ID** articles that offer proven strategies for selling ten vital industrial product groups.

Product categories covered include bearings, belts, cutting tools and abrasives, fasteners, hand tools, hose, maintenance equipment and supplies, materials handling equipment, power tools, safety equipment, and accessories for those products. To order, send a $25 check to INDUSTRIAL DISTRIBUTION, P.O. Box 37, Boston, MA 02258. For information, call Diane Mercurio at (617) 964-3030, ext. 346. ☐

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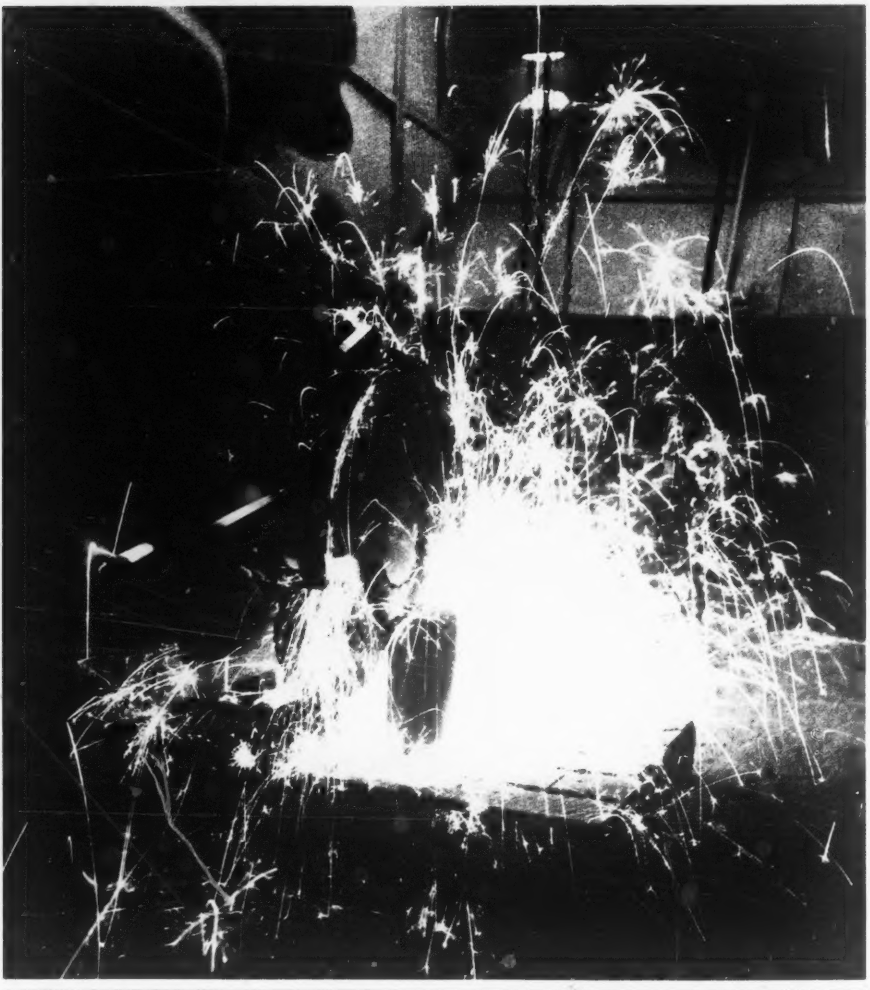
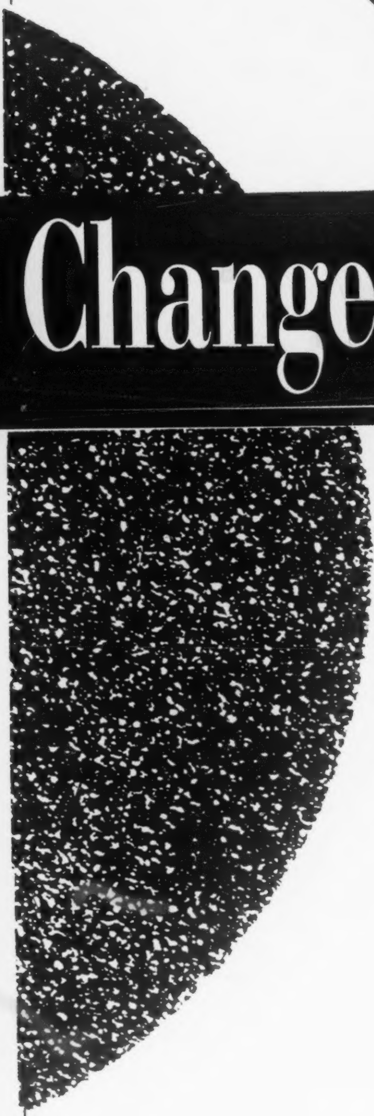


photo courtesy of Buckeye Abrasive, Inc.

SUPPLEMENT TO INDUSTRIAL DISTRIBUTION

# Change and Opportunity



**By John G.F. Bonnanzio**
**Associate Editor**

Distributors of cutting tools, abrasives and accessories can expect 1989 to resemble last year. For many, that is very good news. Yet for others, it means grappling with an industry dispensing change as quickly as it seems willing to provide new opportunities.

Most of this change will come in the form of increased sales spurred by new technologies. During 1988, INDUSTRIAL DISTRIBUTION estimates that U.S. manufacturers shipped $3.8 billion worth of cutting tools, measuring tools, fluids, and other accessory items. This year, that figure could surpass the $4 billion mark. On the abrasives side, 1988 shipments topped $3 billion and are forecast to rise $77 million this year to nearly $3.2 billion (see chart).

At the heart of all this activity are new technologies that will continue to redefine the industry. In the industrial triangle of manufacturer, distributor and end user, all parties have been affected, with rising sales being the result of this evolution.

With the advent of CNC machines, cutting tools and abrasives manufacturers have had to scramble to get new products onto the market. And they must be capable of meeting, if not exceeding, the rigorous requirements of faster, more accurate cutting and forming machines. This situation is a complete reversal of the 1970s when machine tool producers were unable to keep pace with the arrival of new alloys and ceramic materials. In today's market, tools must be more reliable and predictable, because automation has meant that fewer operators will monitor production on the shop floor.

In turn, the end user seeks to increase productivity and quality through factory automation. The recent trend in manufacturing has pulled away from flexible manufacturing systems, and moved toward highly versatile stand-alone machining centers, which are better suited to cellular systems manufacturing.

For the distributor, selling increasingly technical cutting tools and abrasives now presents exciting new possibilities. These products were once viewed as commodities (and many supply houses still sell them as such), but today the opportunity exists to market technical expertise, provide tool inspection as a value-added service, and build partnerships with customers who demand better tools, a wider variety of product, electronic order entry, and systems contracts.

Amid these technological changes, there have also been geographic shifts in the machine tool population. This is perhaps the most difficult and frustrating problem facing distributors. For the vast majority of supply houses, when a customer moves out of a given service area, perhaps from New England to the Carolinas, that customer is gone forever.

As in other industries, distributors of cutting tools and abrasives are feeling the effects of supplier terminations and the consolidation of smaller distributorships into branches of larger concerns. Also on the horizon is the reemergence of buying groups and their gravitation toward selling on price rather than performance and service.

The challenge for industrial distributors is to harness all this change. But unlike other industrial sectors, the market for cutting tools, abrasives and accessories is a growing rather than shrinking market. This is not an insignificant difference. Further, as the rate of new product introductions accelerates, this difference will continue to transform the industry and bring to the distributor an abundance of strikingly new opportunities.

**THE CHALLENGE**

Sweeping changes have occured in almost every aspect of the distributor's business, particularly in the area of cutting tools. A proliferation of new composites and tool geometries has resulted in greater choice for the end user, and has led to fewer manufacturers and vendors. According to one study, in 1977 almost 90% of cutting tools shipped were manufactured by 343 establishments. By 1982, competition reduced the supplier base to 315, without altering market share.

Such change was apparently evident during The Nat'l Machine Tool Builders exhibit held last year in Chicago. Reports David Sutliff, a capital goods analyst with Salomon Brothers Inc., "It looks like competition in the cutting tool businesses will intensify but probably will focus on technology and service, rather than price."

Sutliff also notes that companies such as Kennametal, Sandvik and GTE-Valenite have broadened their product lines and are now offering to solve customers' tool problems by "systematizing" their inventories. Such assistance in the tool crib would help maintain the proper level of tools, participate in product application, and also provide a foot in the door for specifying each company's own product.

For those manufacturers who continue to invest in the research and development of new product, the rewards appear promising. "We have seen a consolidation within the industry," explains American Securities' director of research, David Leibowitz. "The survivors will be the large, established, well-capitalized, and financially sound organizations."

One such player is Norton Co. Although weathering the effects of a recent restructuring program, the company has nonetheless invested 2% of its sales ($90 million between 1985 and 1987) on research and development, with $35 million earmarked for abrasives research alone. The result was the introduction of the seeded-gel (SG) abrasive, which is widely regarded as an important breakthrough in bonded and coated product lines.

"Technology is an important part of the cutting tool industry," cautions Leibowitz. "This is an industry that has proved that each time there is a major advancement in technology, the product just jumps off the shelf."

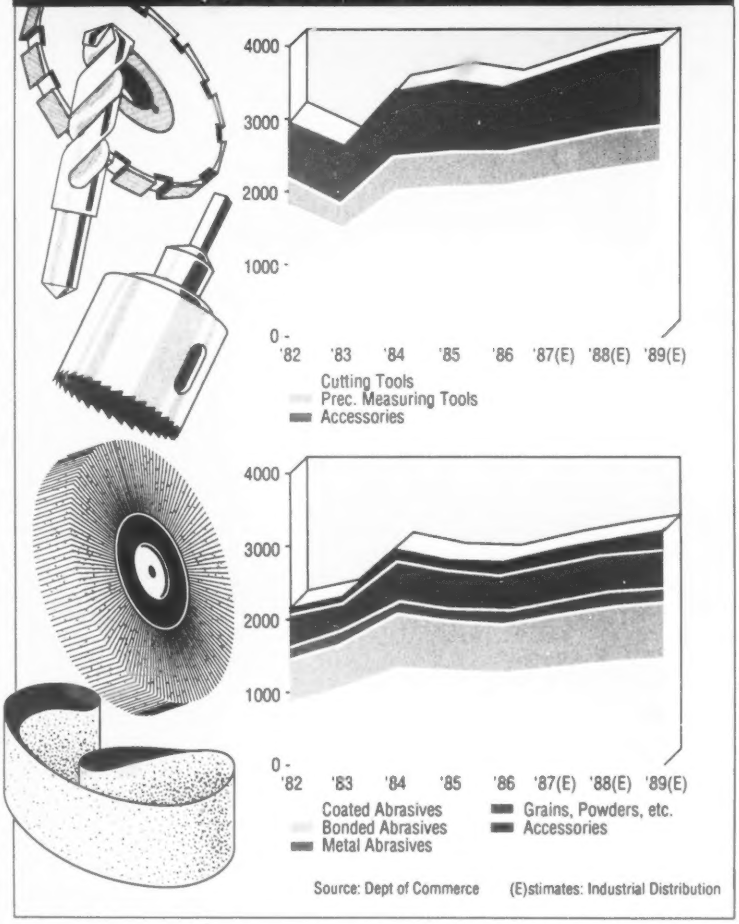
Advances in the areas of materials, design and engineering, tool holders, cutting fluids, materials to be cut, tool life, ease of use, and the quality of the cut itself are all instrumental in altering the complexity of the business. In addition, each time a new product reaches the market, distributors have the opportunity to sell new customers and resell old ones.

"This is an expanding business," says Leibowitz, "it is also a business ripe for new entrants." But for distributors who have linked their futures with manufacturers reluctant to or simply incapable of bringing new product to market, their security must certainly be somewhat less assured.

Distributors and manufacturers who carve for themselves specialty niches are likely to endure, if not prosper. Likewise, larger distributors who continue to work closely with their suppliers will also survive, so long as they're able to turn their inventory and squeeze acceptable margins.

Caught in the middle, suggest

**CUTTING TOOLS & ABRASIVES 1982-'89**
**(shipments in millions of dollars)**



Source: Dept of Commerce (E)stimates: Industrial Distribution

**ID estimates that shipments of cutting tool and abrasive products will increase 2½% this year. Total sales for 1989 in billions: Cutting tools, $2.341; Precision measuring tools, $.534; Accessories, $1.077; Coated abrasives, $1.390; Bonded abrasives, $.809; Metal abrasives, $.230; Grains and powdered media, $.504; Accessories, $.210.**

industry observers, is the mid-size distributor struggling to be all things to all customers. Says Robert Campenella, a Cleveland-based distributor and president of U.S. Carbide Tool Inc., "The distributor who sells the commodity-type cutting tool is being squeezed. On one hand there are more big users buying direct, and with the specialty tools, they don't have the expertise or the right equipment to sell the higher-end products."

Lacking technical expertise, such a distributor will lose business to the specialist with in-depth product knowledge, and might further suffer in his attempt to sell commodities based solely on price. In the meantime, however, as long as the industrial pie continues to grow, the mid-size distributor will have a fighting chance. But the economy's expansion can't last forever, and when it does finally retract, trouble is likely.

### HOW STRONG IS THE MARKET?

There are many factors affecting the cutting tools, abrasives and accessories market. However, they are not much different from those variables affecting other industries: military spending, capital spending on new plant and equipment, interest rates, new manufacturing methods and technologies, investment tax credits, depreciation, currency fluctuations, inflation, and foreign competition.

Happily, and perhaps surprisingly, the forecasts for many of these factors through 1989 are promising (see Market Outlook). But more important to the distributor than watching the prime rate is the outlook for the largest purchasers of cutting tools and abrasives. These are automobile and truck manufacturers, aerospace companies, farm and construction equipment manufacturers, nonelectrical machinery producers, steel warehouses, and oil and gas drillers.

While many economists see higher interest rates slowing gross national product to about 2½% in 1989, according to Thomas Burns of New York's prestigious investment bank Goldman, Sachs & Co., industrial production this year might still increase 4 to 5%. This would occur in the face of a sliding dollar resulting in growth in domestic exports. Regardless, most analysts don't foresee a recession in 1989, and new plant and equipment spending should increase a promising 6%.

### THE VIEW FROM THE FIELD

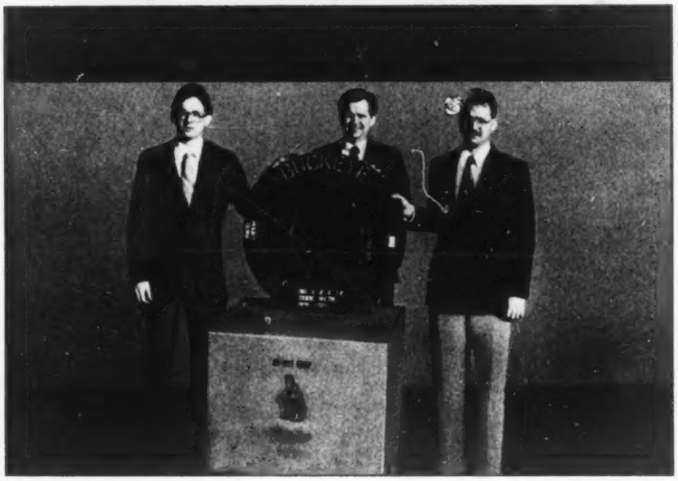
Counting on yet another strong performance in basic industry is Robert Scanlon of The Cleveland Twist Drill Co. Noting that the market was "strong" all last year, the company's president credits increased production in aerospace, job shops and the automotive sector for Cleveland's healthy performance. "If anything we got hurt during the early '80s when everybody went to price as the only issue," recalls Scanlon. "Today," he says, "customers are discovering that the less expensive cutting tool is not necessarily the answer to their problems."

Across the country, there is much exuberance at the distributor level. "Capital spending has been up and business has been strong," says Thomas Bailey of Detroit's Bailey Saw and Machinery Co. A specialty distributor of bandsaw blades, Bailey has found the steel warehouse business (which accounts for roughly 25% of sales) "in good shape," along with tool and die shops, machinery manufacturers and the automakers.

To the surprise of many, Detroit closed its 1988 selling season with its third best year in history. And de-

*[continued on pg. 15CT]*

"When Buckeye says they'll ship it, they'll ship it!"



As a supplier, when an opportunity comes to you, you take it — or your competition will.

That's what Alabama Tool & Supply Company in Bessemer, Alabama, did when a former foundry customer of theirs ran out of snagging wheels, and their supplier couldn't deliver.

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"Buckeye was able to take our specs for 20 snagging wheels that were 20x4x2, engineer the wheels and ship them to our customer in three days. THREE DAYS! They put that foundry back in business — and we got back our customer."

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**"They can engineer just about anything in foundry wheels from information you give them, and when they tell you they're going to ship by a certain day, they ship it that day. That's important to a supplier like me."**

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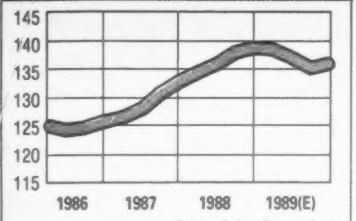
# MARKET OUTLOOK

*The Market Outlook for cutting tools and abrasives is predicated on the dollar rising through 1989. Expectations are for U.S. exports to increase at a slowing rate and, as a result, for industrial production to rise only slightly. With the election of George Bush as president, sustained military spending and changes in investment tax credits may keep industrial output as high as 5%, although many see 2% growth as realistic.*

## BAROMETERS

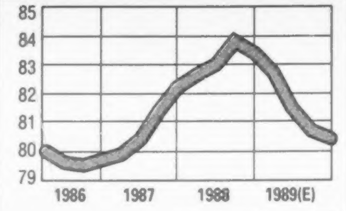
### Industrial Production (1977=100)



**Source:** Federal Reserve Board

**Despite marginal increases for '89, already high levels of production are a good sign for distributors.**

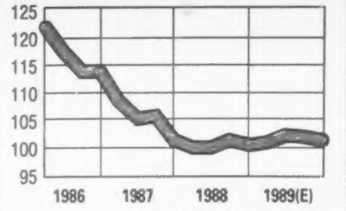
### Mfg's. Capacity Utilization (% of capacity)



**Source:** Federal Reserve Board

**As the year progresses, manufacturing's output could cool, but certainly not chill.**

### Trade-Weighted Dollar (1980=100)



**Source:** Atlanta Federal Reserve Board

**If the dollar begins to rise, exports could slow and commodity-grade imports could increase.**

## INDUSTRY FORECASTS

### Domestic Auto Sales (thousands of units)

| Qtr: | 1987 | 1988 | 1989(E) | 1990(E) |
|---|---|---|---|---|
| 1 | 1669 | 1914 | 1988 | 1918 |
| 2 | 1973 | 2076 | 2110 | 1951 |
| 3 | 1878 | 1787 | 1782 | 1703 |
| 4 | 1561 | 1658 | 1622 | 1622 |

**Source:** Motor Vehicle Mfgs. Assn.

**The year ahead could be another good one, as long as the dollar stays soft and the yen relatively high.**

### Aircraft & Parts Production (1977 = 100)

| Qtr: | 1986 | 1987 | 1988 | 1989(E) |
|---|---|---|---|---|
| 1 | 158.16 | 166.83 | 169.23 | 166.72 |
| 2 | 160.50 | 167.43 | 166.00 | 165.81 |
| 3 | 162.13 | 169.29 | 168.17 | 168.24 |
| 4 | 165.33 | 170.60 | 166.48 | 169.51 |

**Source:** Federal Reserve Board

**Boeing and others intend to knock Airbus out of the skies by increasing productivity. Prospects look good.**

### Steel Service Centers (1978 shipments = 70M tons/day)

| Qtr: | 1986 | 1987 | 1988 | 1989(E) |
|---|---|---|---|---|
| 1 | 82,700 | 86,477 | 92,299 | 89,797 |
| 2 | 81,266 | 86,812 | 89,110 | 88,209 |
| 3 | 78,921 | 86,489 | 87,354 | 87,066 |
| 4 | 78,810 | 89,655 | 87,862 | 87,845 |

**Source:** Steel Service Center Institute

**A 1% drop isn't bad when compared to 1986 and earlier. Besides, many see this drop as too pessimistic.**

### Nonelectrical Machinery Production (1977 = 100)

| Qtr: | 1986 | 1987 | 1988 | 1989(E) |
|---|---|---|---|---|
| 1 | 146.50 | 145.79 | 163.70 | 171.32 |
| 2 | 143.66 | 150.63 | 169.60 | 170.78 |
| 3 | 145.16 | 155.40 | 173.16 | 170.60 |
| 4 | 144.76 | 158.73 | 172.90 | 171.18 |

**Source:** Federal Reserve Board

**Foreign demand for metalcutting machine tools increased 96% last year. A repeat in '89 is unlikely.**

### Construction, Mining, Farm Equipment Production (1977 = 100)

| Qtr: | 1986 | 1987 | 1988 | 1989(E) |
|---|---|---|---|---|
| 1 | 62.60 | 57.36 | 67.70 | 65.92 |
| 2 | 60.46 | 60.63 | 69.89 | 65.09 |
| 3 | 59.00 | 65.83 | 70.13 | 64.61 |
| 4 | 57.60 | 66.73 | 68.34 | 65.67 |

**Source:** Federal Reserve Board

**Low-cost producing is key to competing globally. With retooling taking place, opportunities abound.**

### Oil & Gas Drilling Index (1977 = 100)

| Qtr: | 1986 | 1987 | 1988(E) |
|---|---|---|---|
| 1 | 113.36 | 67.23 | 86.10 |
| 2 | 68.40 | 69.86 | 86.63 |
| 3 | 60.40 | 88.03 | 82.66 |
| 4 | 66.73 | 90.86 | 84.66 |

**Source:** Federal Reserve Board

**Rig counts inched up in '88 keeping some distributors busy. But sliding oil prices will continue.**

**(E)stimates:** Cahners Economics

spite Wall Street's crash late in '87, consumer confidence was unshaken while Americans gobbled up 15.6 million vehicles—an increase of 1%. The additional good news is that sales of imported cars and light trucks tumbled 7.5%, reflecting the weakening dollar against the yen.

This year, other industries promise the same kind of performance witnessed in 1988, although growth rates are not likely to be as spectacular (see p. 13). For example, while Cahners Economics forecasts a capacity utilization rate decline of 2% in 1989, those rates will still demonstrate remarkable strength at slightly above 81%—certainly nothing to sneer at.

Likewise, steel service centers will continue to cut iron at impressive speeds: 88,230 tons per day this year compared to 89,157 tons per day last year—a decline of only 1%. Says American Saw & Mfg.'s vice president of sales, Don Rooke, "That's a growing market. Activity is high and Lenox (the company's trade name) sells nothing but quality product. As a result, we sold a lot of bandsaw blades."

One source of concern for Lenox, however, as well as for Bill Dowding who helps direct the company's marketing, is buying groups, which he says disrupt the manufacturer's ability to support a product. Claims Dowding, "They take the marketing strategy away from the supplier."

For example, while Lenox works with distributors to sell its saw blades as quality products well-deserving of a few additional dollars, buying groups pull a product toward commodity status. "Once you move your product away from being a commodity," says Rooke, "you can command a higher margin. Then we can earn some money and so can our distributors."

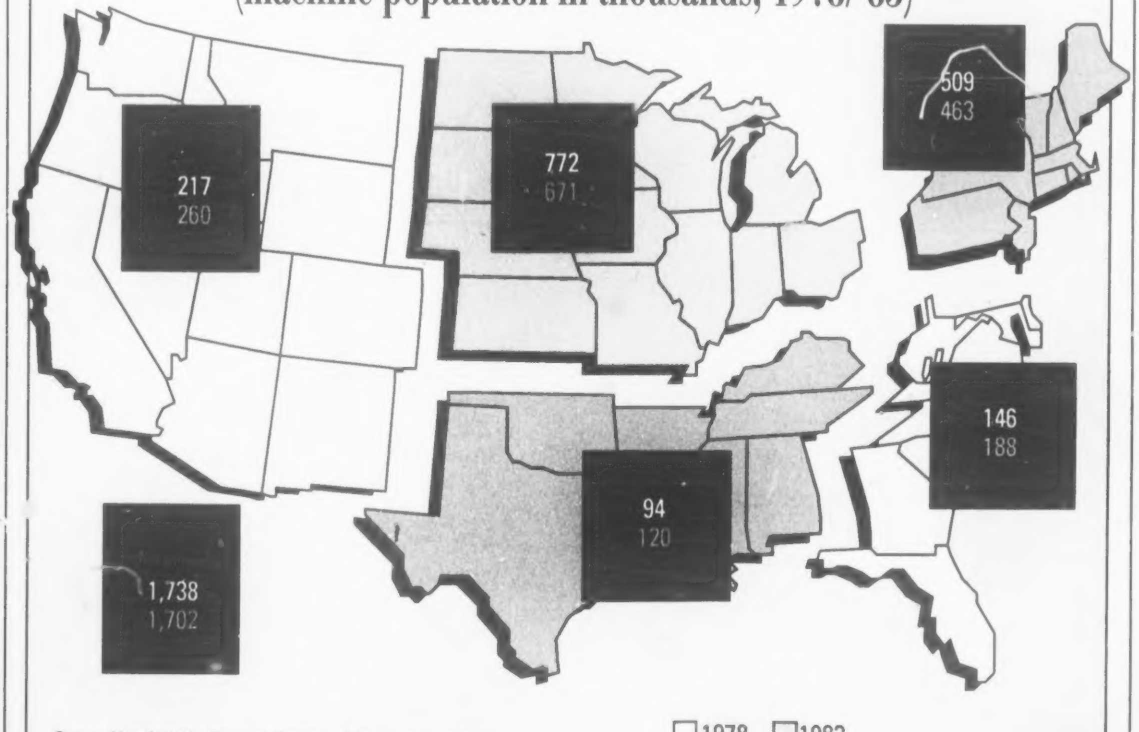
By choosing distributors who sell the company's reputation for quality, Lenox has grown its business. Such strategies have apparently worked in the North and South Carolina furniture markets. "There," says Dowding of his company, "we basically own that market with a share that would be unbelievable."

Vying for a piece of that southern pie is Jim Cornish of Iowa's Sioux Tools Inc. At Sioux, a manufacturer of air and electric power tools (as well as abrasive pads), Cornish finds the Carolinas, Florida, Georgia, and Tennessee all strong markets for his company's products. "There's a lot of boat building, cabinetry and furniture work going on right now," he says, noting that the International Woodworking Fair last year in Atlanta "was very, very successful."

Less successful, perhaps, are selling efforts directed at the nation's steel mills. Because of labor costs, most manufacturers are trying to eliminate as much finishing work as possible, particularly when cosmetic appearance and product performance are not diminished. But in other areas of industry, this is certainly not the case.

"Customers are demanding products with a finer finish," says 3M's division vice president, Richard McGrath. "Whether it's polishing a casket or smoothing bearings to

## Metalcutting's Southward March (machine population in-thousands, 1978/'83)



Source: Manufacturing Research Institute of American Machinists within microscopic tolerances, competition demands that the overall quality of products be improved."

Although manufacturers are working to produce their products closer to near net shape, McGrath points out that the prospects for abrasives are still good. Better finishes are widely recognized as enhancing a product's operating life, particularly in products such as camshafts, where precision grinding is often required.

"For the most part," notes McGrath, "the manufacturing sector has had a very good year, and the distributor benefits directly from this increased productivity. If they continue to sell more abroad, distributors will sell more domestically." And how much does 3M guess that will be for 1989? "It's anybody's guess," McGrath says, then adds, "About 2½%."

### THE MARKET SHIFTS

While few distributors would complain that industrial output is expanding, for many such good tidings have oftentimes appeared less promising. According to INDUSTRIAL DISTRIBUTION's *42nd Annual Survey of Distributor Operations*, not all areas of the country are equally enjoying this new-found prosperity.

In fact, only distributors in the Northeast indicated a decline in sales for 1987. (Figures for 1988 are not yet available.) The region benefitting the most, however, was the Southeast. There, sales performance skyrocketed 33% in 1987 in sharp contrast to the national average of 5%, and the Northeast's dismal decline of nearly 4%.

One reason for this erosion is not difficult to determine. Beginning in the 1970s and continuing today, the machine tool population in the U.S. has been shifting steadily southward (see chart). While some think that this trend is greatly exaggerated, consider this: in 1987 the Nat'l Machine Tool Builders Assn. (now The Assn. for Manufacturing Technology) launched a new trade show. It wasn't held in Chicago, nor was it held in Cleveland, Buffalo or even New York City.

The exhibit was held in Charlotte, NC. Says the association, "The Southern Manufacturing Technology Show is designed to serve an area west to Memphis, north to Baltimore, and south to Tallahassee." Even without a great sense of geography, most know that Charlotte is quite a long way from Detroit, or even New Britain, CT, where Ernest Wardner is president of Smith & Klebes, Inc., a specialty distributor of cutting tools and abrasives.

After noting that a few years back "the bottom fell out of the market," Wardner and his two partners have kept their business in the black by slashing back the company's overhead, getting a better handle on inventory control, and computerizing their entire operation.

In addition, Smith & Klebes had to identify who they could afford to conduct business with. "We're not all things to all people," says Wardner. "All our salespeople used to be manufacturing people, engineers and the like. This allows us to do the kind of specialized contracting that requires a tremendous level of expertise. That's how we make our money."

In New Britain, a suburb of Hartford in the Connecticut River Valley, the diversity of manufacturing that onced dotted the landscape has been severely depleted in large part because of high labor costs. "We try to keep track of where the cutting machines move to," says Wardner. "Sometimes you can do it, and other times you find out that they're now in some place like Tennessee."

Down in Knoxville, Jim Slaple, Jr. understands Wardner's predicament but, of course, welcomes the new business. "It's kind of frustrating," says The Tool Crib's president. "Machine tools move from Milwaukee to Nashville and there isn't any way for that guy back there to maintain that business."

Describing last year's sales as "good," Slaple looks forward to increasing business at his three-branch distributorship through the support facilities supplying components for automakers now in the state. "We're just beginning to feel the effects of their presence in our area," he says, observing that once the lid is taken off a cookie jar, "it won't be long until you find some hands you'd rather not see in it, in it."

At National Twist Drill, a division of Regal-Beloit Corp., Frank (Skip) DeVilling calls Slaple's kind of approach to marketing "total procurement cost thinking." Says National's vice president of sales and marketing, "What we want are distributors who understand that price is only one factor, sometimes a very small factor, in selling a cutting tool. The classic strip-and-shop approach strips the distributor of the price of shipping, packaging, cost of possession, and availability. I can make anything in the world a special," says DeVilling, "if I'm the only guy that's got what you need." ☐

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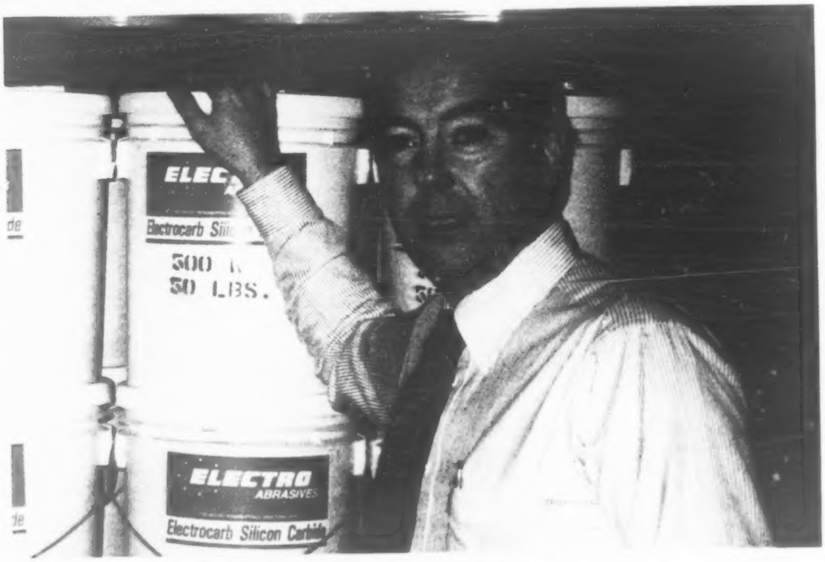
SHOWCASE

# The Forgotten Abrasive

*Overlooked by most distributors as a potential profit maker, abrasive grains, one manufacturer exalts, is a $500 million market.*



Al Ramming's 3-year-old company ships abrasive grains at impressive speeds.

**By John G.F. Bonnanzio**
**Associate Editor**

Three years ago Al Ramming and five of his associates at Electro Abrasives made their bosses an offer they couldn't refuse. The company, then a subsidiary of Ferro Corp. in Buffalo, NY, was on the verge of divesting its abrasive grain division. With an uncertain future, Ramming and his colleagues formed a corporation, and ultimately bought the company.

The new management team, now in charge of its own fate, faced formidable challenges. One of the first obstacles was breaking a popular misconception among distributors that "bulk media" was a small, and thus unprofitable, market. And there were other problems. In addition to the major steel manufacturers and refractories still in the throes of downsizing, many of Electro's largest customers were simply producing less. Meanwhile, near net size manufacturing techniques meant less call for finishing products, while slacking demand and overcapacity forced prices down.

But 1986 was a long time ago. Today, Electro is crushing crude silicon carbide at breakneck speeds. And although competing in a mature market, Electro's employees are working overtime to meet demand. "There are a number of reasons for our success," explains the company's president. "Part of it is that we're employee owned, part of it is that we're competitive and ship quality products, and an important point is our philosophy to protect our distributors at all costs."

While Electro's determination to build trust with its distributors is admirable, it also makes good business sense. In an industry where a single specialty distributor often supplies the entire loose grain market for a given city, losing that supply channel can mean losing customers for years at a time. Therefore, Ramming makes certain that when quoting prices, every distributor gets the same deal to assure a competitive footing.

In the rough-and-tumble loose grain market, that kind of price assurance is rare. And although most specialty abrasive distributors represent a single manufacturer, their allegiances are often determined by the supplier providing the best price and delivery, and not much more. On the manufacturers' side, some won't hesitate to take an account direct, doing little to assuage distributors' fears of being preempted on price.

"It's a very price-sensitive product," says Ramming, although he denies that abrasive grains can be demoted to commodity status because of increasingly rigid standards and critical applications. Notes Electro's plant manager Jim Kintzel, "It's not hard to imagine the effects of a #180 grit getting into a batch of #600 powder when polishing optical glass. You would have to throw the work away."

But higher quality standards have also opened new markets for the company, particularly in the area of electronics. A new generation of black silicon carbide grains is widely used in precision slicing and polishing of quartz crystals, silicon semiconductor wafers, and ferrites. And while many of the coarser grits are encountering difficult times in primary markets, such as metal fabrication shops, #600 to #1200 mesh silicon carbide and aluminum oxides are increasingly used as final polishes.

"The emphasis on finer finishes and particles has meant our moving less tonnage," says Ramming. "But now we've moved into more of a value-added niche by delivering a higher quality, refined product." Even so, distributors of loose grain abrasives still need to commit storage space because the product is obviously a bulky item.

To circumvent this problem, Electro drop-ships to its distributors' customers, and then, as Ramming puts it, "We close that confidential file until our distributors tell us to send some more product." From its location on the Niagara frontier, Electro says it can deliver within 24 hours to Michigan, Ohio, Pennsylvania, New Jersey, Massachusetts, Ontario and east to Long Island. For more distant markets, Electro maintains warehouses in Texas and California, and is currently looking for additional distributors to fill some of its blanks.

### Estimated Loose Grain Market

**(1986$^{(E)}$ shipments in millions of \$)**

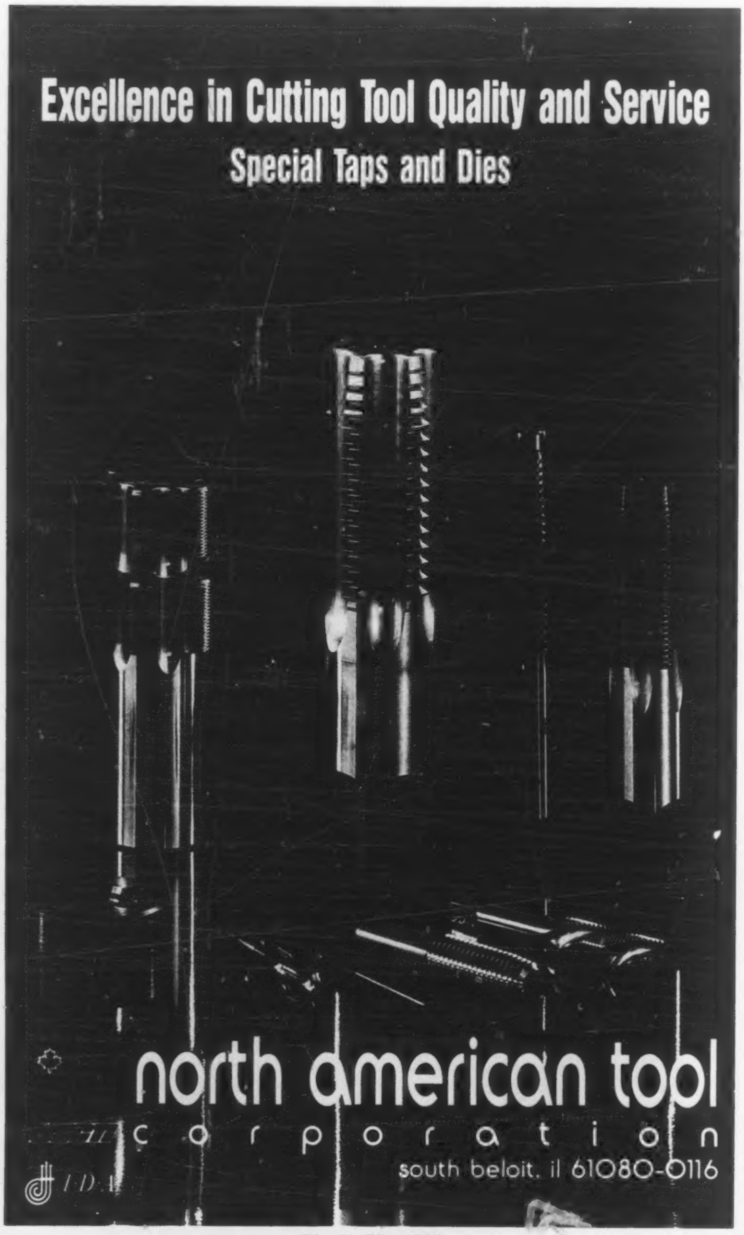
| | |
|---|---|
| Aluminum oxide | 116 |
| Silicone carbide | 71 |
| Steel shot/grit | 66 |
| Finished corundum | 10 |
| Tripoli | 12 |
| Slag | 10 |
| Garnet | 7 |
| Emery | 1 |
| Shells* | 1 |
| Diamonds | 120 |
| Glass bead | 100 |
| Total | 514 |

*Includes walnut, peanut and almond

**Sources**: Bureau of Mines, Dept. of Commerce

**(E)stimates**: Industrial Distribution

As for the future, Ramming says that the company's outlook is bright. New metal matrix composites will require the increased use of silicon carbide and aluminum oxide powders in aluminum and magnesium castings. "When that starts to happen," explains Ramming calmly, "there's not enough powder capacity in the world to take care of these requirements. At that point," he says, "we will increase our capacity." ☐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# Industrial Distribution®

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

SPECIAL:

## Report from STAFDA

## Delivering Quality Products

Wes Lively
Harold E. Smith Co.
Lancaster, PA

# Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 78, NO. 2 FEBRUARY 1989 A CAHNERS PUBLICATION

Wes Lively of the Harold E. Smith Co. describes the quality program his company has implemented.

cover photography by Eugene Mopsik

COVER STORY

## 34 Delivering quality products

Every employee in a distributorship needs to be involved in a successful quality control program. In the first of a two-part special report, *ID* describes how distributors can ensure quality products for their customers. Next month we focus on achieving quality in customer service.

CONVENTIONS

## 45 Building profits in construction

Here's why members of the Specialty Tools and Fasteners Distributors Assn. had plenty of reason to smile at their recent convention in Miami Beach.

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MANAGEMENT

**33 Inside Distribution**

**90 Clifton on Management**
Improving your productivity.

SALES & MARKETING

**53 Working with customers**
Organizing client data helps Holmes Distributors get the most out of inside sales.

**57 Strictly for Sales**
Giving bingo cards punch.

DISTRIBUTOR'S UPDATE

**7 Distribution Briefs**
Grainger funds new ID course; Get updated on Just-In-Time; Cardinal to buy Brian Supply.

**9 News**
A new report reveals how importers are penetrating the U.S. market and offers strategies for limiting import growth; PTDA defeats name change proposal; bolts industry forms new coalition.

**31 Letters**

**58 Calendar**
Upcoming events of interest to distributors.

**59 Association News**

**85 Supply Outlook**

PROFITABLE IDEAS

**61 Computers**
An in-depth look at bar codes.

**63 Tech Notebook**
Hand tool ergonomics

**67 Product Spotlight**
Head and eye protection

**69 New Products for Profit**

The latest products from leading suppliers.

**79 Literature**

**87 Advertisers' Index**

**88 Business Staff**

**88 Classifieds**

# NEWS

# Study says imports on the rise

*ASMMA report reveals how importers penetrate U.S. market; offers strategies for limiting import growth*

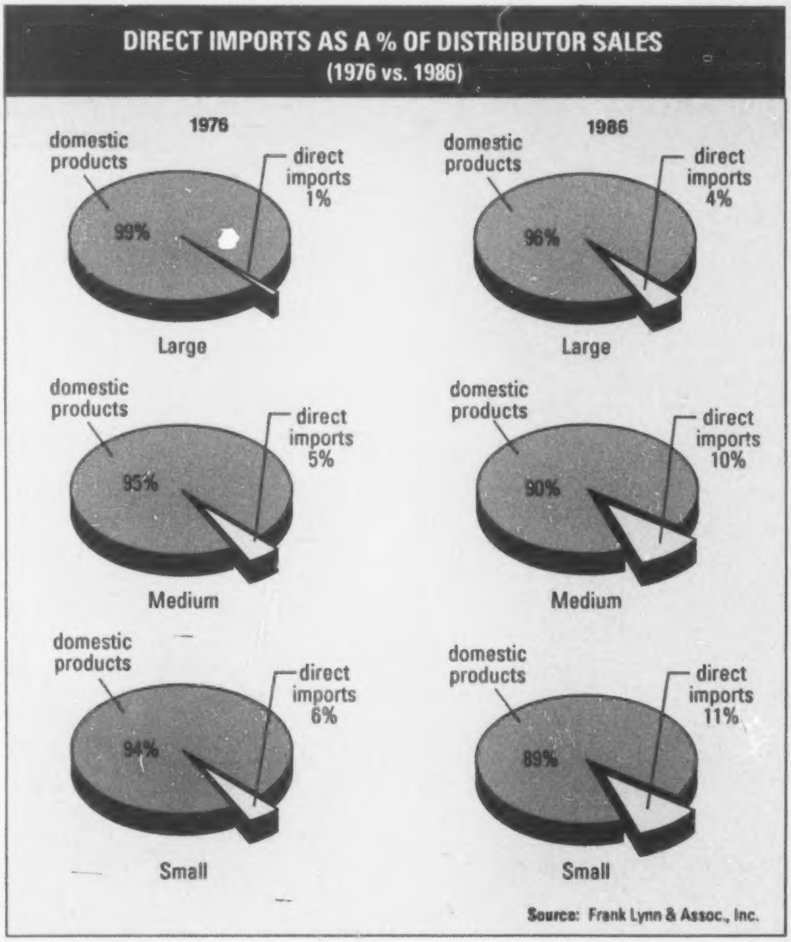
By ignoring small distributors who generally sell to smaller end users, domestic manufacturers have allowed importers to make significant inroads into the U.S. marketplace during the past ten years.

A report released by the American Supply & Machinery Manufacturers' Assn. (ASMMA) says that imports make up more than 50% of the small distributor and catalog house product mix. These companies are normally non-Industrial Distribution Assn. (I.D.A.) companies that focus on small end users.

The report also says that importers have made inroads into I.D.A. houses as well. For example, direct imports doubled during the period 1976 to 1986 at small and medium I.D.A. companies, and showed a four-fold increase at large I.D.A. distributors (see chart).

The research, which was based on interviews with 67 I.D.A. distributors, 30 non-I.D.A. distributors, 15 domestic manufacturers, 5 import manufacturers, 15 industrial end users, and 5 industry experts, was conducted by Chicago-based consultant Frank Lynn & Assoc.

As Charles Stockinger, ASMMA's business manager, notes, the study is primarily an educational document. He says that while imports may have been a more serious issue three years ago when the dollar was high, a turn in the currency rates could change the situation overnight. Says Stockinger, "Our people can't be deceived into thinking that everything's O.K."


**DIRECT IMPORTS AS A % OF DISTRIBUTOR SALES**
**(1976 vs. 1986)**

Source: Frank Lynn & Assoc., Inc.

*Direct imports represent a higher percentage of sales within small I.D.A. distributorships compared to large I.D.A. distributorships.*

So while the statistics that the report discloses are significant, Karl Beide, project manager of the study, maintains that ASMMA members should not become obsessed with the numbers. "The fact is that direct imports, at about 17% of total domestic sales, are still a very small part of the U.S. scene," says Beide. "What's key for ASMMA members at this point is to understand how importers penetrated the U.S. market, and to work with their distributors to counteract the flow of imports."

As Beide explains, importers penetrate U.S. markets by offering the most favorable terms possible to the distributors, manufacturers' representatives and catalog houses that are unable to obtain top-grade domestic lines. Once the importer gains a reputation with small end users through price, performance or product innovation, a process that can take up to ten years, importers are able to attract the high share channels generally covered by I.D.A. members.

The report offers a laundry list of strategies for ASMMA members to work on with their distributors:

- Educate I.D.A. distributors on how to sell small accounts by sponsoring seminars on catalog selling and telemarketing.
- Help support I.D.A. distributors' small account efforts through direct mail and other co-op programs.
- Set up master distributorships to sell to small distributors that focus on small end users.
- Sell through small distributors (non-I.D.A. members) that can provide small end-user coverage.

### TODAY'S GLOBAL MARKET

The Frank Lynn report provides much broader information than the conclusion that importers penetrate the U.S. market by tapping the low end of the market. For example, the report says that globalization in other U.S. markets, most notably automobile, electrical and consumer electronics, has paved the way for acceptance of products produced throughout the world in the industrial marketplace.

Because of this, end users today do not view products on an "import vs. domestic" basis but, rather, on a "product vs. product" basis. According to the report, this means that the "Buy American" attitude holds less water when better products are available elsewhere.

It's this last point that Rusty Duncan, a first vice president of I.D.A., is most concerned with. Notes Duncan, "Foreign manufacturers did not make inroads into the U.S. market because of the distribution channel. They did so because they built superior products. The problem I have with this report is that there's too much emphasis on distribution channels, and not enough emphasis on building better products."

The Lynn report does cite specific recommendations, albeit at the end of the study, that manufacturers should follow in order to improve product quality. They are as follows:

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- Continually update/modify product offerings to make it difficult for import manufacturers to target voids/niches.
- Establish processes to collect information on new import products by identifying new offshore technologies before they are introduced in the U.S. market.
- Meet or exceed import product offerings in terms of price/performance or differentiation.
- Use imported private-labeled products to fill product line voids until proprietary products are available.
- Continue to invest in research and development to keep abreast of product improvements and new technology. (Import manufacturers spend heavily on research and development, sometimes as much as 9% of sales.)

In the end, R.C. Randlett, vice president of marketing at Milwaukee Electric Tool Corp., puts the Lynn report into perspective. Randlett, whose firm has realized double-digit sales growth every year for the past 10 years except during the recession of 1981-'82, says that companies that maintain a commitment to quality will always be able to compete against importers. Says Randlett, "I agree with the general premise of the Lynn study. But the bottom line for American manufacturers has to be consistently manufacturing and delivering quality products."

The Lynn report is available free to ASMMA members and for $20 to I.D.A. members. For information, call ASMMA at (216) 241-7333. ☐

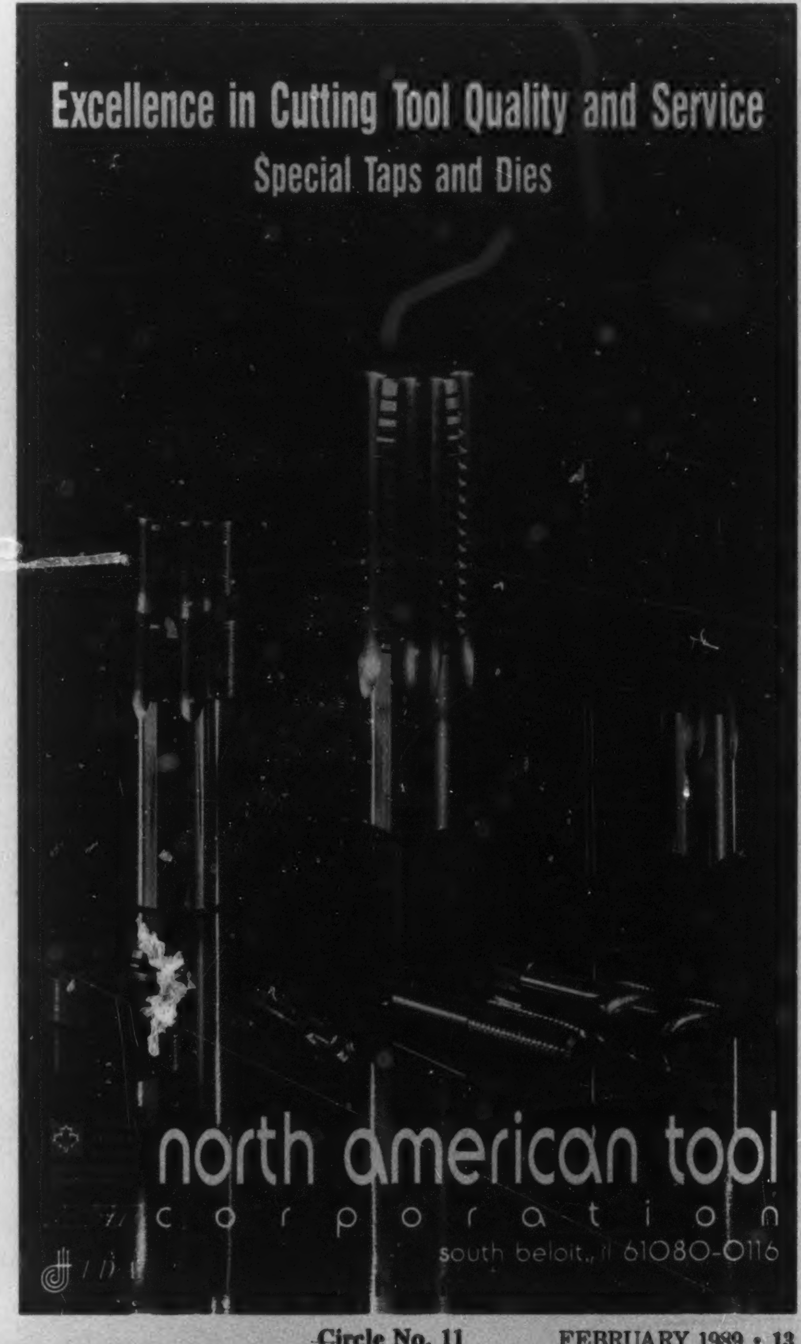
## PTDA defeats name change proposal

CHICAGO, IL—The membership of the Power Transmission Distributors Assn. (PTDA) has voted down a proposal to change the association's name to the Industrial Motion Control Distributors Assn.

According to Beate Halligan, PTDA's executive vice president, the vote, with 183 opposing the name change and 45 in favor, was a clear indication that the membership was "not ready" to take such a step.

As Halligan explained, the vote was the culmination of a two-year process in which the leadership studied the name change issue. After careful consideration, PTDA's leadership concluded that many PTDA members sell electrical/electronic and fluid power products along with the more traditional power transmission items. The general consensus among the association's leaders was that the group's name should be changed to reflect the membership's changing business activities.

But the rank and file did not agree. Ed Baxter, executive vice president of Atlanta-based Bearings & Drives, Inc., said that most of the membership believe that the PTDA name is synonomous with the industry and that there's no reason to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association's affairs."

For example, Buffington said that in its policy statement, I.D.A. has made clear that buying or marketing group business may not be conducted while I.D.A. meetings and events are being held. In addition, I.D.A. officials involved in buying or marketing groups are expected to keep a clear separation between their involvement in I.D.A. business and buying group business. I.D.A. has also refused to provide mailing lists to organizers of buying groups.

The one area in which I.D.A. felt it could become directly involved in the debate over buying groups was on the educational front. Buffington said that Kenneth G. Hardy, professor of marketing at the University of Western Ontario and co-author of an article on buying groups published last year in the Harvard Business Review, will speak at both the southern and western regional conventions. In addition, a full panel discussion that will include both manufacturers and distributors is scheduled for the national convention next May in Chicago. ☐

## FPDA members getting the most out of their employees

PHILADELPHIA, PA—By increasing employee productivity, fluid power distributors are attaining higher gross margins than most other segments of industrial distribution.

This was one of the primary conclusions drawn by John D. Pearse, president of Distributor Information Systems Corp. (Farmington, CT), following the release of the *Distributor Productivity Report* by the Fluid Power Distributors Assn. (FPDA).

Pearse, one of the founders of the productivity report, is widely considered one of the industry's leading authorities, particulary when it comes to interpreting statistics.

For example, the report says that despite moderate sales growth of 7.6% for 1987 (down from 10.4% in 1986), FPDA members achieved a return on investment (ROI) of 13.9%. This is high when compared with an Industrial Distribution Assn. average of 6.5%, or even the 9.5% high recorded in 1984 by the Specialty Tools & Fasteners Distributors Assn.

Pearse explained that FPDA members were able to keep ROI at such acceptable levels because gross margin per employee improved, rising from 48.6% in 1983 to 60.9% in 1987 (see chart).

"The significant number is not sales growth or even ROI, because they have been pretty consistent," noted Pearse. "But what is significant is that through automation and capitalizing on a sales force that is generally more technically oriented, FPDA members have increased employee productivity. In my mind this

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## Fluid Power Distributors Trends (1983-1987)

| | 1983 | 1984 | 1985 | 1986 | 1987 |
|---|---|---|---|---|---|
| Return on Investment (%) | 5.4 | 12.7 | 13.8 | 12.2 | 13.9 |
| Net Profit Before Taxes % GM (NBT) | 2.6 | 8.6 | 8.4 | 6.7 | 8.8 |
| Asset Turnover | 3.0 | 3.4 | 3.3 | 3.3 | 3.4 |
| Financial Leverage | 2.3 | 2.1 | 2.1 | 2.1 | 2.3 |
| Sales Growth (%) | 0.2 | 25.4 | 10.6 | 10.4 | 7.6 |
| Payroll % GM (PPR) | 61.3 | 58.7 | 59.7 | 60.9 | 59.5 |
| Inventory Turnover | 3.1 | 3.6 | 3.5 | 3.6 | 4.0 |
| Accounts Receivable | 52.9 | 49.3 | 49.1 | 46.1 | 47.8 |
| Gross Margin % | 29.8 | 29.1 | 28.8 | 29.1 | 29.6 |
| Sales Expense % GM (SER) | 43.1 | 42.5 | 44.6 | 45.1 | 44.7 |
| Gross Margin/Employee ($ thousands) | 48.6 | 54.8 | 57.9 | 58.3 | 60.9 |
| Gross Margin/Invoice ($) | 78 | 84 | 90 | 92 | 91 |
| Interest Expense % GM | 4.4 | 2.9 | 2.6 | 2.6 | 1.8 |
| Current Ratio | 3.0 | 2.0 | 1.9 | 2.0 | 2.1 |

**Source:** Fluid Power Distributors Assn.

has kept margins favorable."

Those interested in learning more about the productivity report should call FPDA headquarters at (215) 564-3484. The report costs $100 for members and $150 for non-members. ☐

## ID's book on selling covers ten key product groups

NEWTON, MA—Need some sales tips? In a new booklet, *Selling the Industrial Market*, the editors of ***ID*** have compiled a collection of past ***ID*** articles that offer proven strategies for selling ten vital industrial product groups.

Product categories covered include bearings, belts, cuttings tools and abrasives, fasteners, hand tools, hose, maintenance equipment and supplies, materials handling equipment, power tools, safety equipment, and accessories for those products. To order, send a $25 check to INDUSTRIAL DISTRIBUTION, P.O. Box 37, Boston, MA 02258. For information, call Diane Mercurio at (617) 964-3030, ext 346. ☐

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**CONVENTION REPORT**

# Winning With Service

*During STAFDA's convention in Miami Beach, some members were surprised to learn of their industry's ability to turn a profit. Do they know something general liners don't?*

**By John G.F. Bonnanzio, Associate Editor**

"What really makes a convention worthwhile," says STAFDA's executive director, Morrie Halvorsen, "is when people return to their businesses and implement what they've learned at the show."

To that end, STAFDA distributors appear to be a pretty smart class. For example, during the past 5 years, gross margins for STAFDA members fluctuated between 34.1 and 33.3%. In contrast, according to ***ID***'s *Survey of Distributor Operations*, general line houses managed gross margins of only 25% in 1987, 24% in 1986, and 31.2% in 1984. In addition, STAFDA distributors have lower selling expenses, a stronger return on investment, and higher annual sales growth (see box). What these figures don't explain is "why"?

Although a number of explanations exist, most are not measurable and only a few seem plausible. When STAFDA distributors are asked to explain their industry's healthy bottom line, their hypotheses are as varied as they are interesting. Several distributors suggested a relationship between dollar volume and profitability. Others suggested that distributors who service the construction trades, rather than traditional industrial markets, are managed by younger, more aggressive, first-generation owners.

The truth is that STAFDA distributors have at least one formidable advantage over others in distribution. Depending on geography, specialty tools and fasteners distributors earn their bread and butter in a market that is far more robust than the industrial sector—price warfares or not. And although an expansionary market is no guarantee of success, it certainly doesn't hurt.

## IMPORTANT DIFFERENCES

According to Frank Williams, a STAFDA director and president of Williams Equipment, "As a group, [STAFDA distributors] can probably provide more hands-on management than general liners because we're smaller and there's less bureaucracy to deal with. We can grab a cash flow problem quicker." Notes the Maryland-based distributor, "We're also out in the field more and, therefore, closer to our customers. In the big picture, that has somehow got to help our bottom line."

**More than 600 manufacturers exhibited their products at STAFDA's two-day trade show. It was the association's third such booth program.**

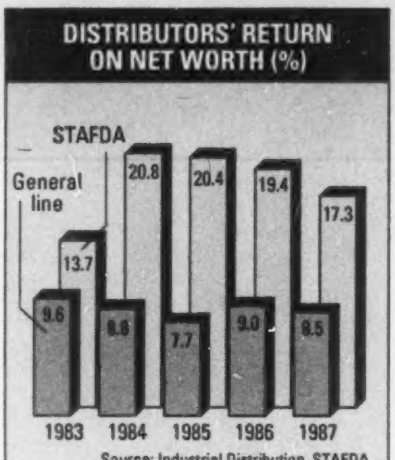
Others agree. William Janner, president of Tucson's Mining and Construction Suppliers, says that STAFDA-type distributors are "generally more profitable" and "faster on the draw." What Janner is suggesting is that specialty tool houses are more adaptable when it comes to servicing the rising tides of different markets.

In fact, STAFDA research shows that its members sell to five major customer categories including commercial and residential construction markets, installers, remodelers and, surprisingly, their largest customer of all, the industrial end user. Says Don Carlson, whose term as STAFDA's president expired at the convention's close, "Our mix of products and customers gives us flexibility that is almost unique among distributors. We can shift gears depending on what's up and what's down."

While industrial distribution as a general sector is seeing overall sales rise, STAFDA members are apparently enjoying more of a boom than most. According to STAFDA, before-tax return on assets for its members stands at 8.3% compared to 6.1% for electrical suppliers, 4.8% for plumbing suppliers, and 4.1% for industrial supply houses. In addition, while ***ID*****'s** *Survey* indicates that general liners increased sales 4.1% in 1987 and estimates an increase of no more than 6% for 1988, STAFDA distributors enjoyed a 10.3% sales increase in 1987 with 1988 figures likely to finish about 12% ahead.

### GETTING CLOSER TO THE CUSTOMER

While increased sales certainly do not ensure higher profits, most STAFDA distributors agree there are at least three important factors contributing to their profitability that are perhaps missing in other forms of distribution. The first of these, says Tony Typanski of Frontier Fastening Systems in Billings, MT, is service. With three vans servicing a quarter-million square mile territory in Wyoming and Montana, the company's general manager states that service is Frontier's greatest strength. "We service what we sell," says Typanski, "and every van is equipped to deal with 99% of all repairs that a pneumatic stapler or nailer could ever need."

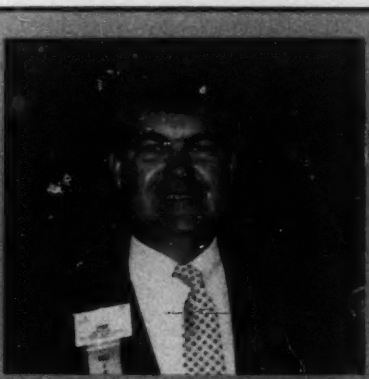


Source: Industrial Distribution, STAFDA

Another aspect of repair work is the service contract. Says Frank Williams, a Maryland distributor, "Most customers rarely exercise their contracts." He notes that a $75 one-year service contract on a $600 rotary hammer is often where the real profit is made on a sale. In addition, says Williams, "You'll never hear a complaint on a bill when you fix something right the first time, and have it back to the customer on the date you promised." Asks the distributor rhetorically, "Would you rather spend $30 and not get your car fixed right, or spend $100 to know that you won't break down on the road?"

## Three Days in the Sun

*From alligator wrestling to struggling with mergers, STAFDA has redefined success.*



**Facing a year of "huge" responsibilities, Jim Mokriski intends to build STAFDA's membership and services.**

Members of the Specialty Tools and Fasteners Distributors Assn. (STAFDA) certainly like to break records, not only their own, but those of other industrial supply houses as well. Consider the facts. Only 12 years ago 250 distributors, manufacturers and their spouses attended STAFDA's first meeting in Miami Beach. In November, 3,630 delegates were in attendance at Miami Beach's Fontainebleau Hilton, including over 600 manufacturers exhibiting product at STAFDA's third trade show.

However, attendance is not the only measure of an association's progress. Says Morrie Halvorsen, "The Miami meeting was our best to date because it was a successful blend of social and business activities. The speakers were very well received, and they addressed particular problems facing STAFDA distributors." Echoing those sentiments was the association's newest president, Jim Mokriski, of Connecticut's Northern Contractors and Industrial Supply. Said Mokriski, "It was, by far, the most exciting meeting I've been to."

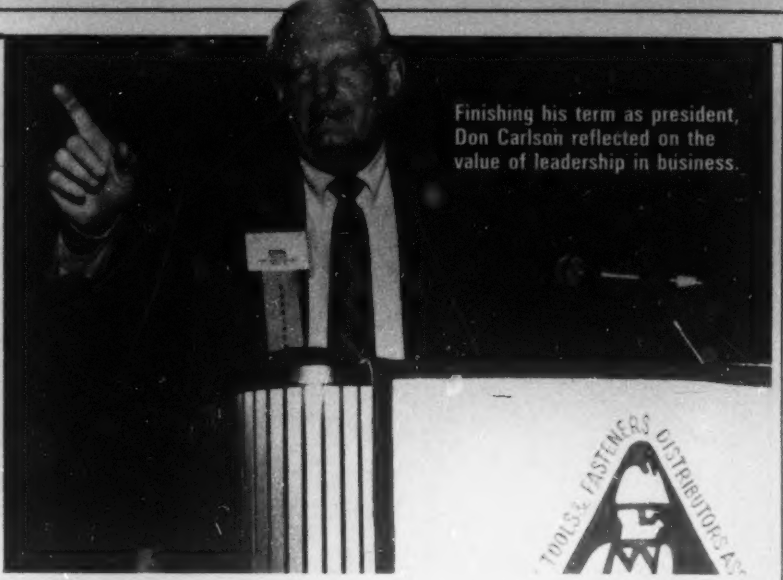
But despite the convention's relaxing location and spectacular receptions featuring a 12-piece swing band, lavish food and a bit of alligator wrestling, STAFDA's twelfth annual meeting was very much a working-person's fare. Beginning at 9:30 a.m. on a Sunday morning, for instance, eight stapler and nailing manufacturers discussed their views on business conditions for the year ahead. The prognosis from Spenax Corp.'s David Greene was mostly "optimistic." Although housing starts are not that strong, said Greene, "commercial and DIY markets will continue to grow," as will the cost of steel rod, energy, packaging, and insurance.

Always a popular event on STAFDA's program is the Distributor Rap Session, where individuals from different parts of the country sit at tables of ten to consider a variety of topics. This year's discussions touched on everything from emerging opportunities in rentals to promoting more cash business, finding and hiring good people, how to establish an effective direct mail campaign, and the effects of recent mergers. As a result of some questionable acquisitions among manufacturers, distributors were urged to contact the National Assn. of Wholesaler-Distributors in Washington (of which STAFDA is a member) for the purpose of having the Justice Dept. enforce any antitrust laws that might be violated. Said one distributor, "Our independence is compromised as these mergers continue to go on. We should all vocalize our displeasure."

Other aspects of the Miami gathering met with equal success. Seven educational workshops and a two-day product trade show all contributed to the record crowd—one which was 47% greater than at any previous meeting. Confided Mokriski after the convention, "The challenge now is to put together a show of at least equal quality next year."

# Carlson's 5 Future Challenges

*In Don Carlson's last formal speech as STAFDA's president, the Omaha distributor imparted his vision of tomorrow's successful distributor. Below is his list of five "critical" areas where industrial distributors must improve their businesses in order to survive.*


Finishing his term as president, Don Carlson reflected on the value of leadership in business.

**People management.** "Since people are the most important resource we manage," says Carlson, "it's imperative that we merge our objectives with incentives that motivate our staff." Noting that older people see change as a threat while younger people see change as opportunity, the 40-year distribution veteran suggests that distributors "turn loose the young talent" in their organizations, and reward people who get things done.

**Treat customers better.** Observing that "employees tend to treat customers the way they themselves are treated by management," Carlson points out that STAFDA distributors have a leg up on chain stores through customer service. "We have the opportunity to stand out from the crowd, simply because there's so much customer abuse around."

**Technology.** With the advent of supercomputers which create designs for materials that never previously existed, the next 12 years will see product transformation on a scale never before seen. "Those companies quick to adapt new technology to their business," Carlson says, "will leave their competitors far behind."

**Improve efficiency.** "Companies in the distribution field are locked in a do-or-die struggle to see who can get product from the manufacturer to the end user the fastest and cheapest," warns Carlson. One way for the traditional distributor to survive, he says, is to change the role of outside salespeople. "He has [got] to be a consultant to the customer, to help him lower total procurement cost rather than focus on lowest price."

**Lead by example.** Quoting H. Ross Perot, Carlson reminded his audience to lead people but manage things. "The success or failure we have in our careers depends more on us than anything else. There will be times when we're victims of circumstances beyond our control," he said. "But our direct results usually reflect our ability to cope with the changing marketplace, negotiate with our suppliers, satisfy customers, and contend with any form of competition."

The second area of profitability for STAFDA distributors is systems selling. Not in the sense of selling contracts and blanket orders or selling up, but rather in marketing products as complete "packages." For instance, when a general contractor wants to buy a nailer, the STAFDA distributor has the opportunity to sell the nail gun, a compressor, hose, couplings, and, of course, the nails. Says Williams, "A system is not as price sensitive, and a good inside salesperson knows that. That's why our inside people aren't just order-takers, they're experts in the field. Our customers appreciate their understanding of the business."

The third reason for a STAFDA distributor's profitability might also be attributed to the circumstances of the sale itself. While purchasing agents buying MRO are paid to shop around on price, contractors and subcontractors on a job site typically need to have a tool delivered "yesterday." The ability to position a distributorship as a dependable source of expendable products helps to differentiate commodity from specialty distribution.

Which is not to suggest that all is perfectly rosy in the business of selling specialty tools and fasteners. In fact, the competition for sales is quite fierce, because STAFDA distributors must compete against everyone from national chain stores to the local lumber yard. Says Don Carlson to manufacturers, "We must keep the word 'specialty' in our business. If you expect distributors to stock and promote your line, you've got to give them elbow room. When you allow your brand to become a commodity, there's no incentive for STAFDA distributors to promote it. To make a commodity strategy work," adds Carlson, "it is necessary to cut expenses to the bone, operate lower margins and still make money. For most ~~of us," he~~ says modestly, "that's not an easy undertaking." ☐

## STAFDA's Healthy Balance Sheet — 1987

| | Average general line distributor | STAFDA distributor |
|---|---|---|
| ROI % (return on net worth/pre-tax) | 8.5 | 17.3 |
| Net profit before tax % | 3.5 | 3.2 |
| Gross margin % | 25 | 33.3 |
| Cost of goods sold % | 71 | 67 |
| Total operating expenses % | 24.5 | 30.6 |
| 1987 sales | +4.1 | +10.3 |

Sources: STAFDA, Industrial Distribution

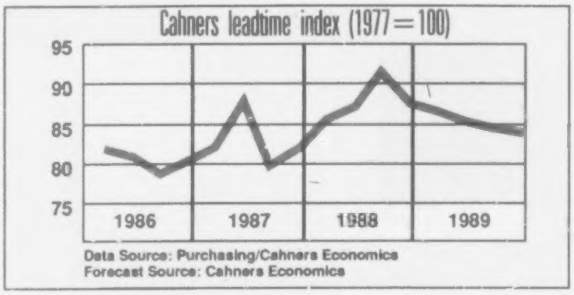
# SUPPLY OUTLOOK

BY KRIS BLEDOWSKI

# Capacity utilization levels off

*But prices keep rising faster*

Capacity utilization rates in electrical machinery, instruments and aerospace have been edging down. It appears that capacities in these sectors have either reached cyclical peaks or will do so shortly. Two forces exert pressure on resource use in the aerospace and miscellaneous transportation categories. On one hand, defense cutbacks should ease production schedules. On the other hand, record-high orders for commercial aircraft will keep capacity utilization rates hovering around 85%.


Cahners leadtime index (1977=100)

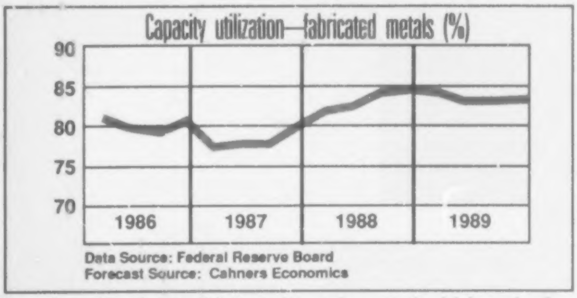
Data Source: Purchasing/Cahners Economics
Forecast Source: Cahners Economics

Rates shot up to 84.4% for fabricated metals and 84.0% for nonelectrical machinery in October. Shipments of machine tools are accelerating after orders soared 80% above a year ago. The fluid power industry is having one of its better years.

While lower resource utilization points to easier supply conditions, higher prices usually signal excess demand. This year's cost of intermediate goods is roughly twice the level of a year ago, and the outlook for 1990 calls for rising inflation for parts and components. This increase is due as much to costs as it is to demand *vs.* production.

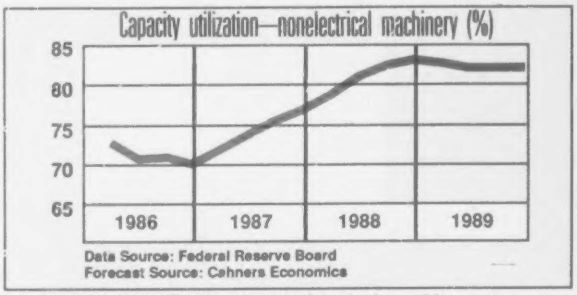
The cost of metal products, such as bearings, is rising the fastest due to higher steel prices. Sheet steel prices are up 17%, stainless steel sheet is 51% more expensive, and aluminum sheet is 40% dearer than a year ago. With this kind of price explosion for ferrous and nonferrous metals, it was only a matter of time before costs were passed on to bearings, valves and other machinery components.

Any good's price is affected by demand and supply. In the language of economists, price usually settles where the supply curve (producers' marginal costs) intersects the demand curve (consumers' marginal value). So even if supply conditions may have eased, strong demand from the OEM sector keeps prices up.


Capacity utilization—fabricated metals (%)

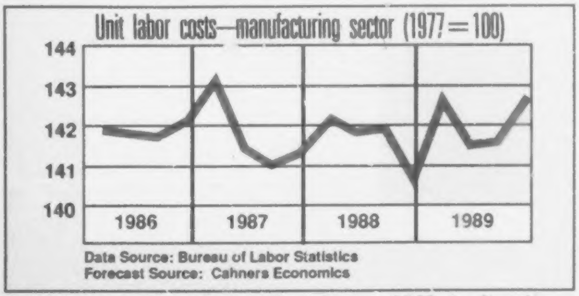
Data Source: Federal Reserve Board
Forecast Source: Cahners Economics

**Capacity utilization in fabricated metals was the highest in the fourth quarter of 1988.**


Capacity utilization—nonelectrical machinery (%)

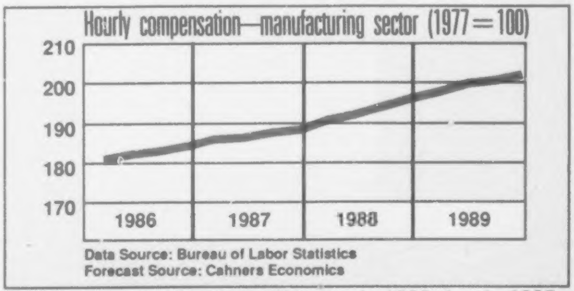
Data Source: Federal Reserve Board
Forecast Source: Cahners Economics

**Expect capacity utilization in nonelectrical machinery to stabilize in 1989.**


Unit labor costs—manufacturing sector (1977=100)

Data Source: Bureau of Labor Statistics
Forecast Source: Cahners Economics

**Unit labor costs have been falling through 1988, leading to incremental productivity gains.**


Hourly compensation—manufacturing sector (1977=100)

Data Source: Bureau of Labor Statistics
Forecast Source: Cahners Economics

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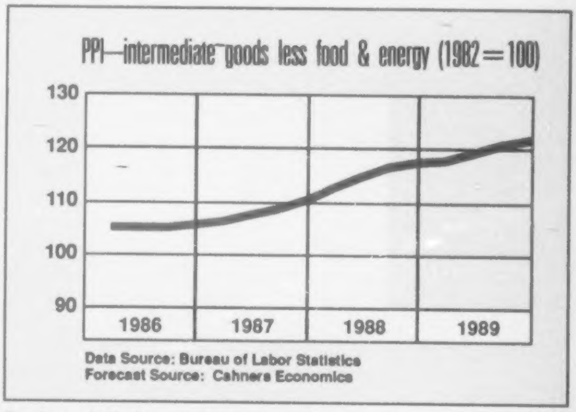
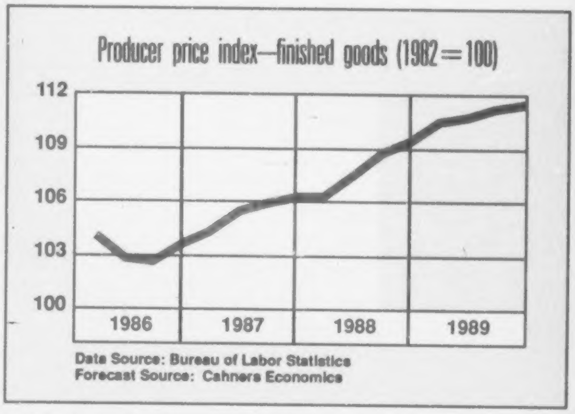
# SUPPLY OUTLOOK

## Price indexes stabilize

The producer price index for finished goods showed no change, seasonally adjusted, from September to October. This index increased 0.4% in September and 0.6% in August. The index of intermediate goods was unchanged after rising 0.4% in each of the two preceding months, and crude material prices edged down 0.1%, the third drop in the last four months. The stability of the finished goods price index in October reflected small movements in its principal component groupings. In spite of no inflation in October, producer prices will register an annual rate increase of over 2.5% in 1988.



**Producer inflation at the intermediate level has accelerated sharply at the end of 1988.**



**Finished goods prices will rise in 1989 at a rate higher than in 1988.**

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MARCH 1989
A CAHNERS PUBLICATION

# Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

SPECIAL:

**Hose Buyer's Guide**

Quality In Customer Service

Tom Reid
Texas Marine & Industrial Supply
Houston, TX

# Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 78, NO. 3 MARCH 1989 A CAHNERS PUBLICATION

Texas Marine & Industrial Supply's Tom Reid tells how his company strives for zero defects.

cover photography by Jerry Jones

**30 Delivering quality customer service**
In order to provide the service levels end users demand today, a company has to undergo a complete change in corporate culture. And that means involving every employee in the quality process says Tom Reid, vice president of Texas Marine & Industrial Supply.

SELLING
**39 Growing beyond the smokestacks**
Despite selling in a depressed section of the country, Pittsburgh distributor Gooding, Lewis, Goetz & Co. has prospered. Here are the company's secrets for success.

SPECIAL
**49 Hose Buyer's Guide**
Looking for hose and accessories products to sell? *ID* presents a list of products and manufacturers.

FINANCE
**63 How do I sell my business?**
Tips for selecting the right acquisition consulting firm.

MANAGEMENT

**29 Inside Distribution**

**108 Clifton on Management**
Motivating people is a key to productivity.

SALES & MARKETING

**67 Strictly for Sales**
Get more sales out of your existing accounts.

DISTRIBUTOR'S UPDATE

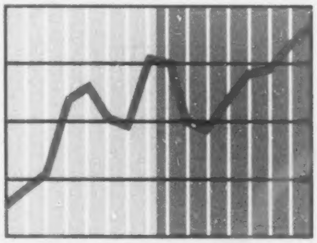
**7 Distribution Briefs**
Summers Group, a large electrical chain, enters industrial supplies by buying Weaks Supply Co.; Simonds buys Michigan Knife; CamBar wins Saturn contract.

**11 News**
Slow, steady growth predicted for manufacturers and distributors in '89; Chicago Pneumatic raises prices 7%; DOC belts ruling seen as having little initial impact.

**69 Association News**

**70 Calendar**
Upcoming events of interest to distributors.

**101 Business Report**



Prospects look good for distributors in '89.

**103 Supply Outlook**

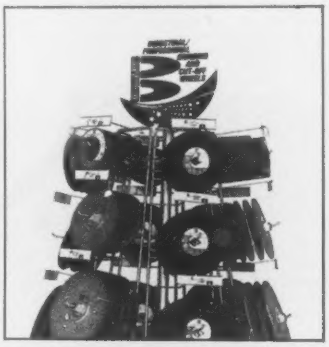
PROFITABLE IDEAS

**75 Computers**
Tele-connection personalizes support.

**77 Tech Notebook**
Electrical enclosures.

**79 Product Spotlight**
Focus on lubricants.

**81 New Products for Profit**



The latest products available from leading suppliers.

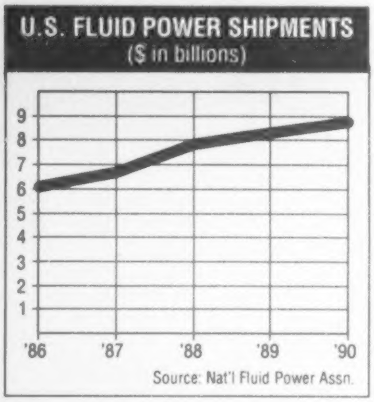
**93 Literature**
New brochures, catalogs and data sheets from selected manufacturers.

**104 Advertisers' Index**

**106 Classifieds**

**107 Business Staff**

gone. This change, he said, is due largely to better management of monetary policy and the fact that imports have helped control inflation. But as often is the case with economics, Evans said these positive trends also have negative sides.



*The recent brisk expansion in fluid power shipments is expected to slow during the next two years.*

"While the flow of imports has had an impact of controlling the rate of inflation, the fact is that we are not as isolated as we used to be, and can be hurt by world economic downturns more than we have in the past," Evans said. "But as long as everything remains on an even keel, I see steady growth for 1989 and into the future." ☐

## Distributors say DOC belts ruling has little initial impact

WASHINGTON, DC—Most distributors interviewed by ***ID*** maintained that the Dept. of Commerce's (DOC's) ruling in the Gates antidumping case has yet to have significant impact on their businesses.

The DOC's preliminary ruling, based on a lawsuit filed June 30, 1988 by the Gates Rubber Co., found that eight foreign countries violated both U.S. and international law by selling industrial belts at less than fair value.

At press time, indications from distributors and foreign producers affected were that, unlike the Torrington case (see ***ID***: Jan. '89, p.9), which involved immediate price increases, most of the foreign belt producers were holding back on price increases until the DOC's final ruling next month. Some of the foreign companies, such as Pirelli Industrial Products Corp., went as far as to challenge the DOC's margins, claiming they were "unrealistic."

Besides Italy, the countries named in the suit were West Germany, Israel, Japan, Korea, Singapore, Taiwan, and the United Kingdom. The products covered by the lawsuit include industrial power transmission belts such as V-belts and synchronous belts, as well as round and flat

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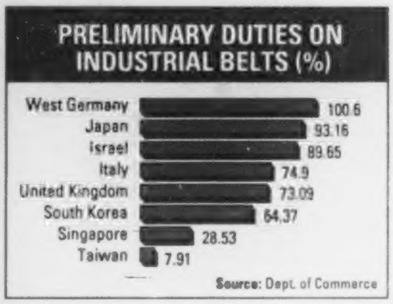
belts. It excludes conveyor, automotive, and front engine drive belts.

As is usual with anti-dumping cases, the DOC set preliminary dumping margins. The margins ranged from a high of 100.60% for the Federal Republic of Germany, to a low of 7.91% for Taiwan (see chart).



**PRELIMINARY DUTIES ON INDUSTRIAL BELTS (%)**

**Source:** Dept. of Commerce

*Duties paid to the U.S. government by importers are based on margins set by the DOC.*

The duties are currently being held in escrow, pending the DOC's final determination in April. If the DOC's final ruling is affirmative, the International Trade Commission (ITC) has 45 days to determine whether the dumping situation "materially injured" the U.S. belting industry. Following that, the importers will either be reimbursed or pay the difference if the margins change.

### DISTRIBUTORS' VIEWS

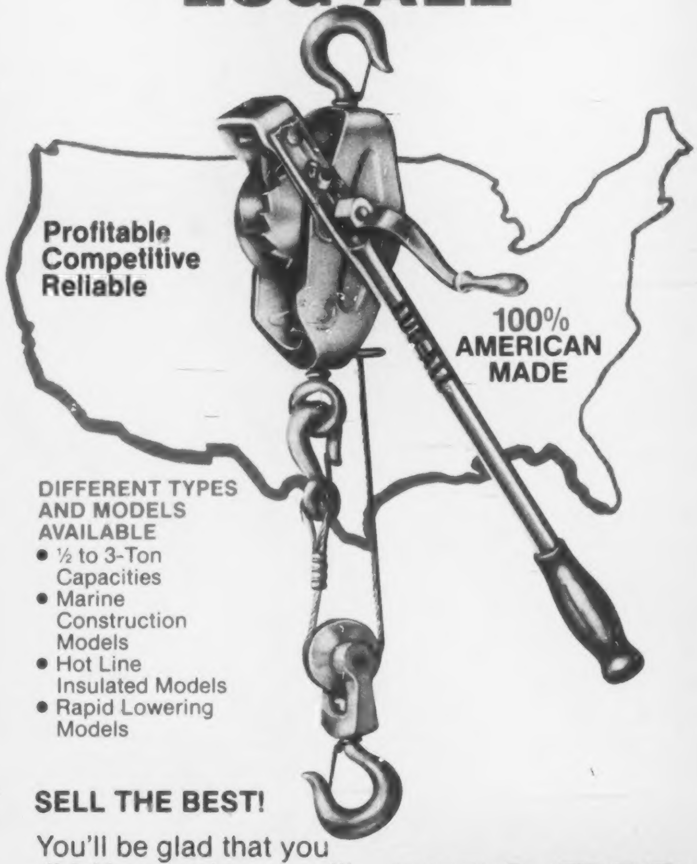
Ralph C. Bolton, vice president of sales for Birmingham, AL-based Motion Industries, a major distributor of Gates belts, said that while Motion may pick up some additional market share, gains are not expected to be dramatic. Bolton maintained that the Torrington case was markedly more significant. He cited two main reasons for the difference.

First, Bolton acknowledged that the 8 countries in the Gates case accounted for about $50 million in sales during 1987, roughly one-tenth of the total for imported anti-friction bearings in 1987. Second, because there are more imports of anti-friction bearings into the U.S., there are clearly more distributors that stock and sell foreign bearings as opposed to domestic, he added.

"The fact is that there is greater opportunity for distributors to carry U.S. industrial belt lines as opposed to anti-friction bearings," Bolton said. "Most distributors had little choice over the years but to carry foreign-produced bearings."

One Cincinnati-based distributor of foreign industrial V-belts concurred with Bolton. Asking not to be quoted directly, the distributor said that unlike the bearings situation, U.S. manufacturers have been able to compete on a quality and price basis with the foreign V-belt producers. This made it less urgent for distributors to carry foreign-made lines, he noted.

Although many distributors were largely unphased by the case, Gates was clearly upbeat. Lew Keim, vice president of corporate public relations for Gates, maintained that the DOC action "supports our original



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contention that foreign-made industrial belts have been sold at below fair market value. The government intervention seeks to eliminate the artificial advantage, not foreign competition altogether."

Gates has maintained throughout that U.S. industry has been hurt by the illegal dumping. In its original filing, the company reported that the 8 countries named in the lawsuit accounted for an estimated 13.2% of U.S. consumption in 1987, up from 8.7% in 1984. These imports were valued at $27 million in 1984 and jumped to $52.5 million in 1987. ☐

## I.D.A. southern convention focuses on improving ROI

NASHVILLE, TN—More than 1,800 distributors and manufacturers met for the Industrial Distribution Assn.'s (I.D.A.'s) Southern Convention to focus on improving return on investment (ROI).

The meeting, which ran from Jan. 21 to 23, included three seminars and a general session presentation geared specifically toward helping distributors upgrade investment return. ROI is defined as after-tax profits as a percentage of net worth.

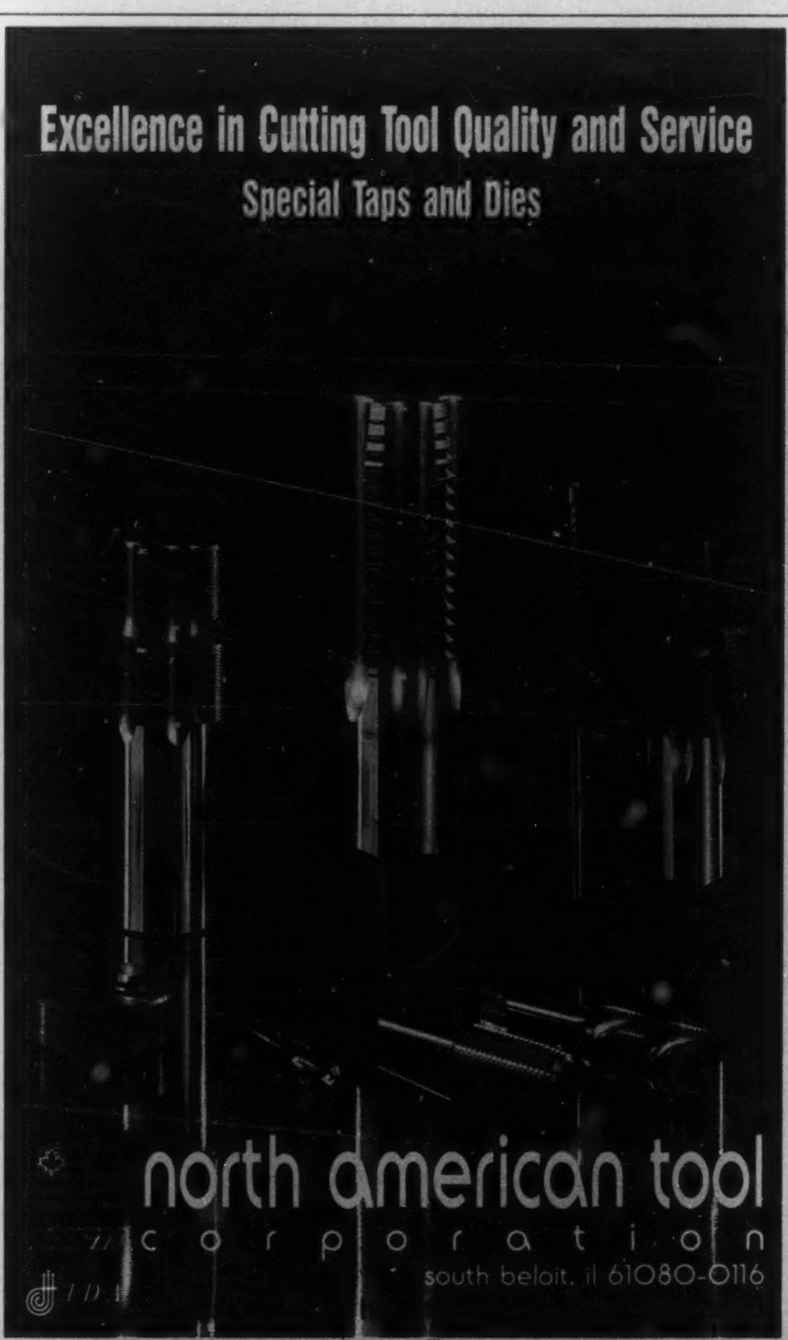
In his general session presentation, I.D.A. Co-president Tom Reid said that I.D.A. members achieve about a 6.4% ROI, well below that attained by other segments of distribution. He pointed out that segments such as hose and fluid power consistently realize ROIs well in excess of 10%.

Reid said that increasing sales and gross margins, along with squeezing expenses, will not solve general line distribution's ROI problems. The I.D.A. co-president said that for members to start improving their return, they must realize that they are spending 20 to 25% of their time correcting mistakes. "We have the low 6.4% ROI because we haven't changed the way we do things."

He then related the story of his company's push toward quality improvement and the goal of zero defects. Reid, who is vice-president of Houston-based Texas Marine & Industrial Supply, said that his company has adapted quality principles as taught by W. Edwards Deming, Philip Crosby and others (see feature story, p.30). Two of the more important tenets of the quality process at Texas Marine are employee involvement and the use of statistical process control techniques to measure a company's operations.

"With quality, we can increase sales, decrease costs and have yet another value-added service we can sell," Reid maintained. "While we have to use all the tools at our disposal, we have to recognize that the quality process can play a significant role in improving ROI." ☐

[*continued on pg. 20*]



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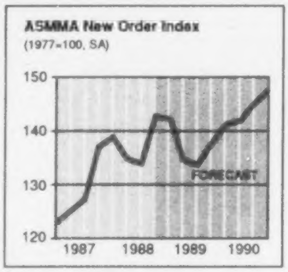
BY KRIS BLEDOWSKI

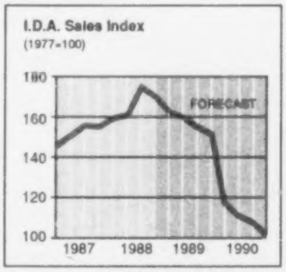
# Economy to slow in 1989

*But prospects for industrial distributors are still good*

As the U.S. economy's growth rate slows this year to a projected rate of 2.2%, industrial distributors will be faced with a low-growth environment. However, the market for industrial products should continue to expand, albeit at a slower pace than in 1988. Demand will weaken in most end-markets, but overall sales of machinery components will still be higher in 1989 than they were in 1988. The following shows how major ID markets shape up this year.



Data source: ASMMA
Forecast source: Cahners Economics



Data source: Industrial Distribution Assn.
Forecast source: Cahners Economics

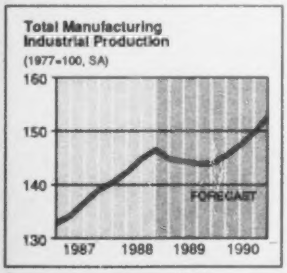
The housing market is slowly coming out of the slump of 1986-1987. Interest rates should rise somewhat early in 1989 and should moderate later on. By the end of this year, total housing starts are expected to be 1.46 million units, up 0.4% from an estimated 10% loss in 1988. Preliminary estimates call for 1.58 million new starts in 1990. Industrial construction spending has been on the rise since early in 1987, and it is expected to grow 10.6% in 1989.

Retail sales are forecast to gain 4.0% in 1989 but when adjusted for inflation, the real rise will be slower. The Conference Board's consumer confidence index, which usually tracks retail sales, is expected to drop 1.6% next year. However, the period of reduced consumer confidence will be very brief. Consumer confidence is an important indicator of durable goods sales.

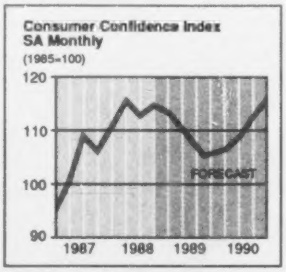
The Cahners' exclusive index of consumer packaged goods industrial production will grow throughout much of 1989, but will finish the year 0.9% lower than in 1988. Preliminary indicators point to a 1.5% increase in the output of packaged goods in 1990.

The weakest end-market for industrial products will be transportation. Total domestic auto sales are expected to decline 2.4%, mainly because of lower consumer confidence and rising interest rates. Production of ships and boats will drop by 1.5% and aircraft will register a meager 0.1% gain.

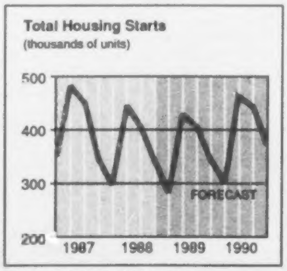
The electronics industry is slowing down but will sustain positive growth throughout this mild economic downturn. The electronics composite forecast predicts 2.6% growth this year. The computer market is expected to expand 2.3% in 1989, communications equipment will grow 4.4%, and components will dip 0.2%. ☐



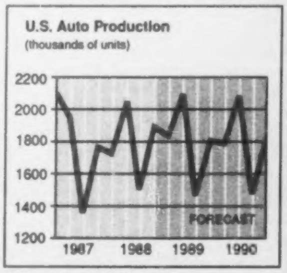
Data source: Federal Reserve Board
Forecast source: Cahners Economics



Data source: The Conference Board
Forecast source: Cahners Economics



Data source: Dept. of Commerce
Forecast source: Cahners Economics



Data source: Dept. of Commerce
Forecast source: Cahners Economics

| | SALES | | INVENTORIES | | | | |
|---|---|---|---|---|---|---|---|
| | Average % Change | | Increase | | No Change | Decrease | |
| | Dec. '88 vs. Nov. '88 | Dec. '88 vs. Dec. '87 | Percent Responding | Average Increase | Percent Responding | Percent Responding | Average Decrease |
| **EAST** | −26.0 | 2.2 | 40.0 | 4.3 | 50.0 | 10.0 | 1.0 |
| **SOUTH** | 1.2 | −3.0 | 26.7 | 3.3 | 46.7 | 26.7 | 2.0 |
| **CENTRAL** | −4.0 | 3.7 | 32.4 | 5.4 | 35.3 | 32.4 | 4.2 |
| **WEST** | −2.0 | 10.6 | 23.1 | 4.2 | 69.2 | 7.7 | 6.0 |
| **TOTAL** | −6.9 | 3.3 | 31.7 | 4.6 | 46.3 | 22.0 | 3.6 |

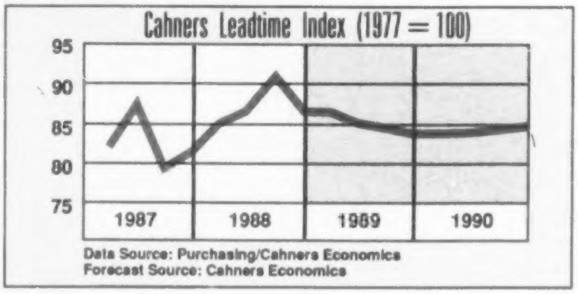
# SUPPLY OUTLOOK

BY KRIS BLEDOWSKI

# Fabricated metals prosper

*But growth will slow in 1989*

Fabricated metals production rose a substantial 8.9% last year after meager growth of 2.7% in 1987. The reason lies in a high demand for fasteners, stampings and forgings which grew over 10%. Automobile and aerospace industries accounted for the bulk of stampings and forgings orders. In the subcategory of impression die forgings, orders totalled a record $3 billion in 1988, about 18% higher than in the previous year. Sales of structural metal products also showed strength. Output of this category advanced 6% in 1988, while hardware tools and cutlery output grew to about 7%.

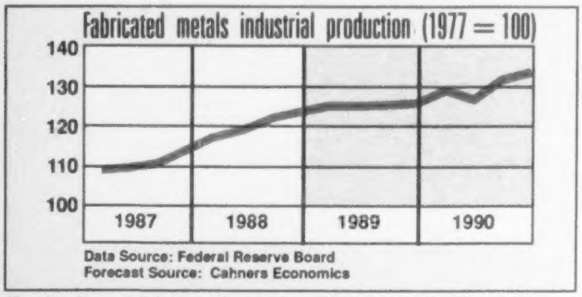

Cahners Leadtime Index (1977 = 100)

Data Source: Purchasing/Cahners Economics
Forecast Source: Cahners Economics

The metal containers industry has been stagnating for the past several years with output hovering around the 1977 level. However, last year it grew about 8%. For 1989, we forecast that production will top 7%.

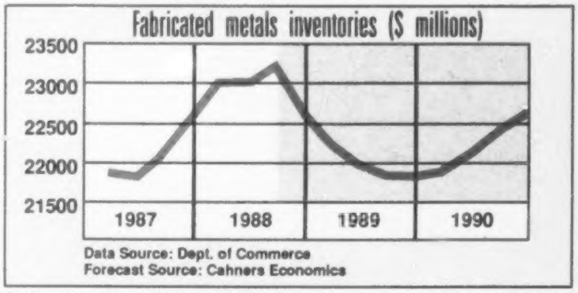
Inventories of fabricated metals have been very stable since the beginning of the current expansion in 1982. Between that year and the end of 1988, the value of inventories fluctuated between $21 and $22 billion, nearing $23 billion in the last months of 1988. With the output expansion of several percentage points during that period, the relative ratio of unsold goods to production actually decreased. With increased capacity and no recession in 1989, we forecast inventory to fall a few percentage points to about $22 billion.

Capacity utilization grew steadily in 1988, from a low of 81.6% in January to a high of over 84% by the end of the year. This has sent prices of fabricated metals soaring. The annual increase of 8.7% was more than 3 times the increase of finished goods prices and twice as high as inflation for packaged goods. With new investment coming on line, last year's bottlenecks will be avoided, and we forecast that 1989 inflation for fabricated metals will be about 3.5%. ☐


Fabricated metals industrial production (1977 = 100)

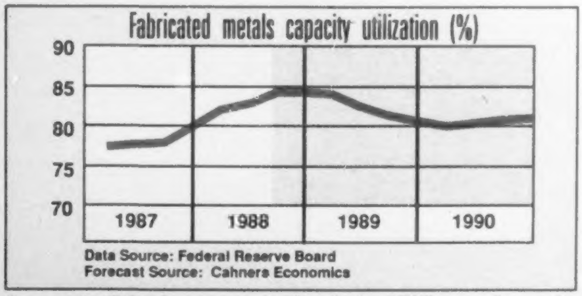
Data Source: Federal Reserve Board
Forecast Source: Cahners Economics

**Production of fabricated metals will increase 3.8%, a higher growth rate than that for the economy as a whole.**


Fabricated metals inventories ($ millions)

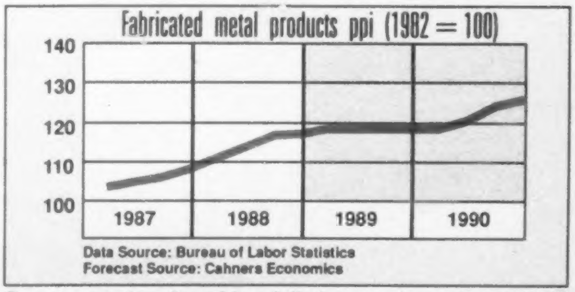
Data Source: Dept. of Commerce
Forecast Source: Cahners Economics

**Reflecting increased production capacity, inventories will fall 4.4% to an average of $22 billion by the end of 1989.**


Fabricated metals capacity utilization (%)

Data Source: Federal Reserve Board
Forecast Source: Cahners Economics

**As new facilities become operational, the 1989 rate of capacity utilization will drop 1.6% compared with last year.**


Fabricated metal products ppi (1982 = 100)

Data Source: Bureau of Labor Statistics
Forecast Source: Cahners Economics

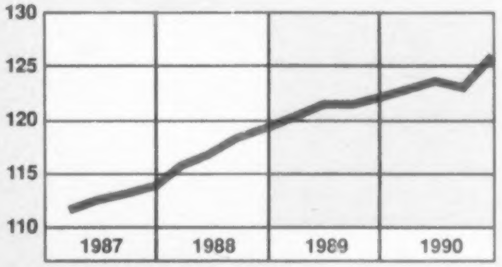
**Expect a continuation of low inflation as prices advance 3.4% this year and another 3.1% in 1990.**

# SUPPLY OUTLOOK

## Moderate producer price increases expected

The producer price index for finished goods rose 0.4% from November to December. This increase followed a 0.3% gain in November and no change during the previous month. The intermediate goods index advanced 0.5% in December, the same as in the preceding month. After a 3.1% drop in November, the crude goods index rebounded with a 3.5% climb in December. For the year, the index was up a modest 2.5% when compared with 1987's performance. Packaged goods prices rose 0.2% in December, the same increase as in November. For 1988 the index was 4.2% higher than in 1987.

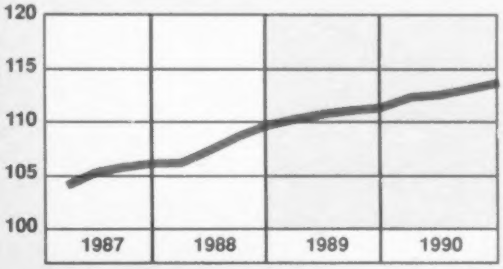
Packaged goods ppi (1982 = 100)



Data Source: Bureau of Labor Statistics
Forecast Source: Cahners Economics

**Last year's inflation in packaged goods of 4.2% will moderate to 3.2% this year and 2.1% in 1990.**

Finished goods ppi (1982 = 100)



Data Source: Bureau of Labor Statistics
Forecast Source: Cahners Economics

**The PPI's advance of 2.7% in 1989 will be roughly equivalent to the rate recorded in 1988.**

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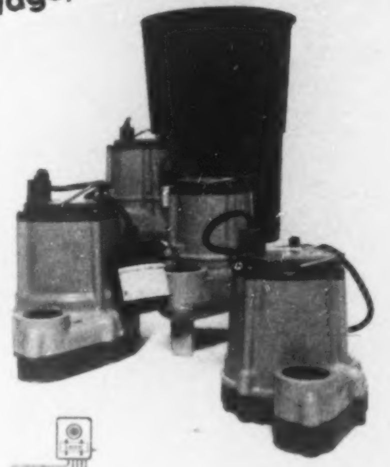

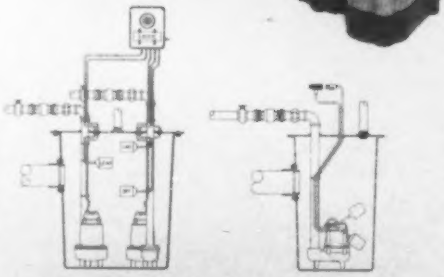

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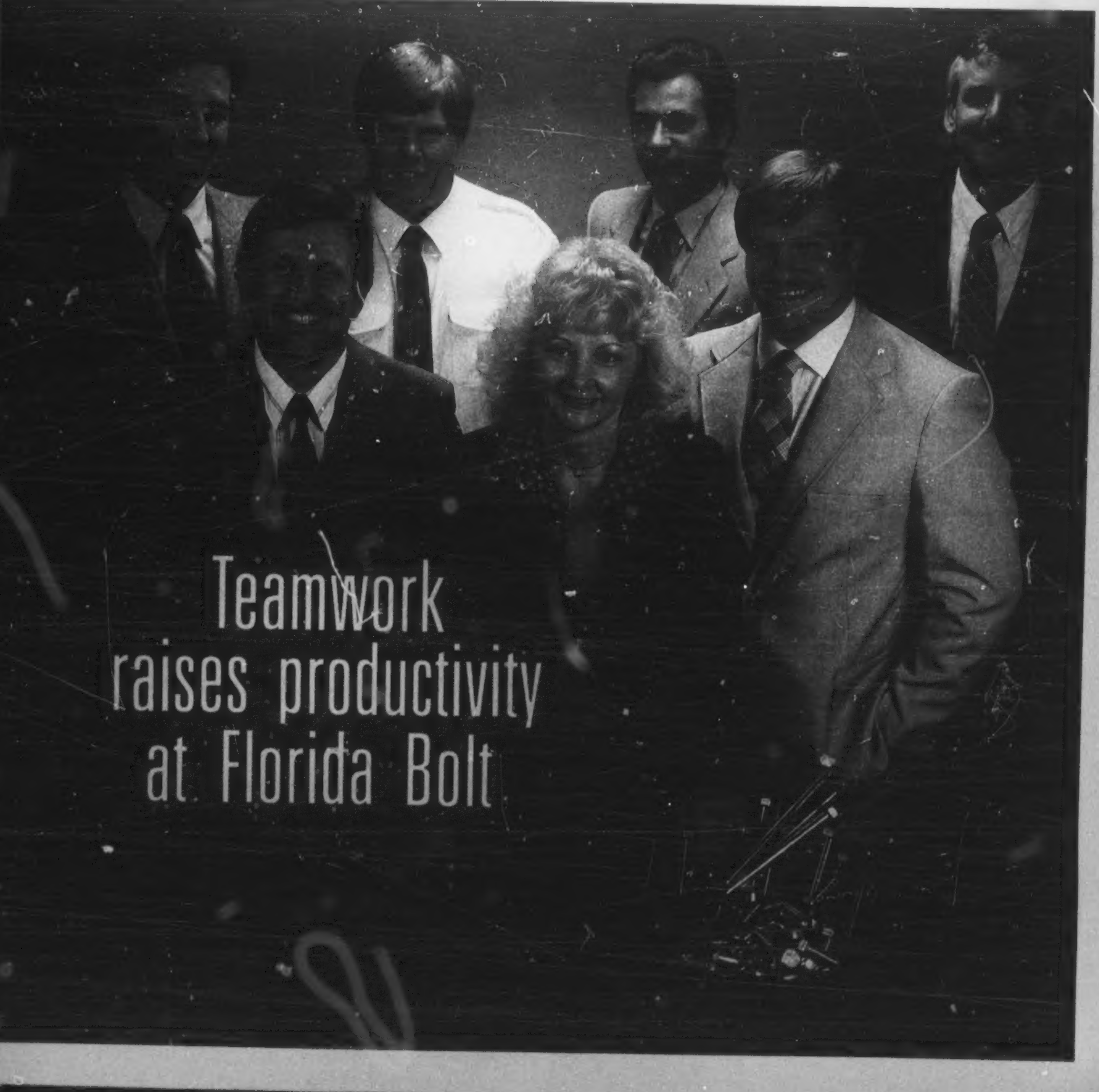
APRIL 1989
A CAHNERS PUBLICATION

# Industrial Distribution®

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

**SPECIAL:**

**PARTNERS FOR PROFIT**



## Teamwork raises productivity at Florida Bolt

# Industrial Distribution®

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 78, NO. 4 APRIL 1989 A CAHNERS PUBLICATION

Florida Bolt's project team consists primarily of employees rather than managers.

cover photography by Red Morgan

COVER STORY

**20 Teamwork raises margins**

By implementing employee suggestions, Florida Bolt was able to earn preferred "quality vendor" status from a major customer, Florida Power & Light.

SELLING

**27 How to sell racks and shelving**

Tips from the pros on selling racks and shelving equipment.

SPECIAL REPORT

**33 Partners for Profit**

In this 24-page supplement, ***ID*** presents an in-depth look at partnering in industrial marketing. The opportunities, problems and complexities of partnering are examined and the ingredients of successful partnering agreements are detailed.

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MANAGEMENT

**19 Inside Distribution**

**90 Clifton's View**
EDI: a promising breakthrough for distributors.

SALES & MARKETING

**59 Strictly for Sales**
Learn more about your customers' behavioral patterns.

DISTRIBUTOR'S UPDATE

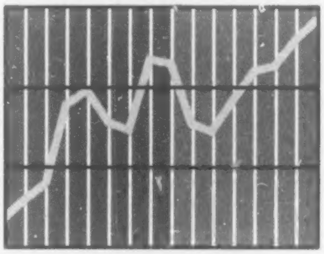
**7 Distribution Briefs**
Garrett Supply gets multimillion dollar contract; I.D.A. seeks education director; Cardinal acquires Lindquist.

**11 News**
Bolts legislation vote expected soon; U.S. files indictment against Lawrence Engineering; PTDA sets up marketing workshop.

**60 Calendar**
Upcoming events of interest to distributors.

**61 Association News**

**83 Business Report**



Heavy equipment sales up.

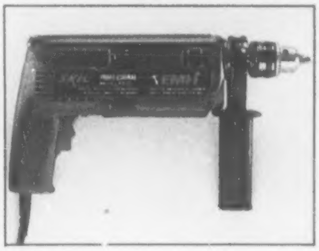
**85 Supply Outlook**
Tight supply is causing higher prices.

PROFITABLE IDEAS

**65 Computers**
Desktop laser printers gain in popularity.

**67 Product Spotlight**
End mills.

**71 New Products for Profit**



What's new from leading suppliers.

**79 Literature**
New brochures, catalogs and data sheets from selected manufacturers.

**87 Advertisers' Index**

**87 Business Staff**

**88 Classified Marketplace**

# Partnering in action

*Many buyers want the distributor's service level, but insist on the manufacturer's price*

It's one thing to talk about the ideal of partnering; another to make it work. In this section we look at some of the insights that those with actual experience in partnering have shared with us in the preparation of this report and last year's report on partnering. We examine the real-world problems as well as the opportunities.

To begin with, whatever the misconceptions or misgivings about partnering, more and more of these relationships are being developed between distributors and buyers of MRO goods. And, the trend seems to be growing. In its elemental form partnering aims at an exchange of distributor stocking for a buyer commitment to purchase a line of goods.

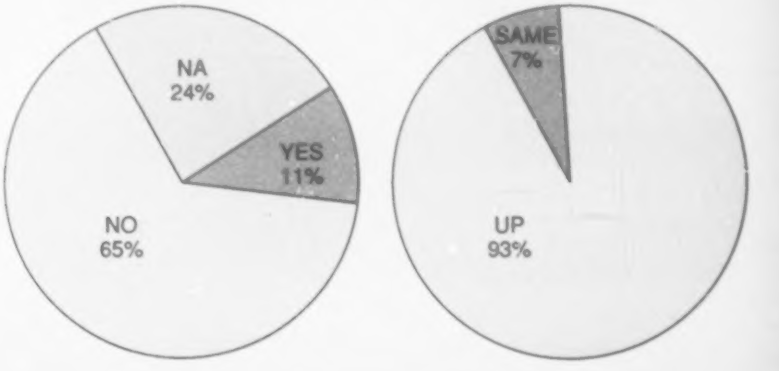
But beyond those commitments is the understanding that the buyer and supplier will work as partners trying to solve problems rather than acting as two adversaries trying to score points. This working together to mutually solve problems is a radical departure from everything that has taken place in the American industrial marketplace to date. As a result, partnering doesn't just happen—it has to be developed.

**The challenge of change.** One of the most fundamental changes taking place among industrial distributors is in the way they regard and

**Partnering**
**(two views)**

**Few distributors have partnering agreements . . .**

**But those with them expect to increase partnering over the next 5 years.**



SOURCE: DREF-NAW study, 1989

sell themselves. As we noted in last year's report, much of the early impetus came from industrial buyers. In recent years this has changed and industrial distributors are coming on strong. Through thoughtful self-examination many have rediscovered the essence of what really makes them unique and valuable in the eyes of astute industrial buyers.

The magic ingredient isn't products or prices, but service—especially the service that maximizes what distributors are good at, managing inventory. Using service as a criterion, the best-positioned industrial distributors are selling service like never before. For many it requires an extremely well-reasoned assault on the biases of industrial buyers who have been conditioned over the years to think of price whenever total cost comes up.

Industrial distributors also are finding that good partnering requires good management skills on their part. A case in point is the higher volume per customer that is implied in partnering. At first blush it would seem that just their increased volume would allow the distributor to bring in quantum gains in net profit. But appearances are deceiving. If a distributor wins partnering business and tries to service it the same way he services other accounts—without reducing handling costs—he often loses money. One of the reasons for this is that the average order size from the customer tends to drop significantly once the partnering agreement is in effect. Unless there's an easy, uncomplicated method for order filling the distributor is likely to take a bath.

**Selling.** Another factor that is critical to the success of partnering is the ability to sell the concept. Selling partnering is still usually more difficult for the distributor than the industrial buyer. Buyers following a tried and true eight-step

## Eight steps for buyers

The eight steps that need to be followed if the buyer is initiating the partnering agreement:

1. Systems analysis. A complete examination of the paperwork and procedures involved with making the purchase must be made and an understanding of all the procedures the paper represents must be reached.
2. Selling. All who use the system—internally and externally—must be sold on the approach. They must be convinced that purchasing procedures will be streamlined, inventory will be reduced, and a better service level will follow.
3. Product line evaluation and selection. Groups of products that will lend themselves to the partnering approach must be identified.
4. Item analysis. In every product group, the individual items that make up the grouping must be examined fully in terms of past purchases, usage, suppliers, and pricing.
5. Evaluation and selection of supplier(s). A full search and evaluation must be made of every potential supplier of a partnering agreement.
6. Negotiation. Once purchasing has made a basic determination of the product scope and potential suppliers, it's time to sit down and start explaining and working out the details with the potential vendor.
7. Implementation. This consists of going through and working out the problems that weren't anticipated in the planning stage and insuring that the contract works in real life.
8. Audit. A systematic and continuing check to ensure that the procedures set up are used the way they were intended.

## Eight steps for distributors

Here are the eight steps that must be followed when the partnering is initiated by the industrial distributor:

1. Identification of customers or potential customers for whom a partnering agreement would be appropriate. In short, a smart distributor needs to do some scouting before he ever gets around to talking deals.
2. Make a presentation to customer candidates of the potential benefits of a well-conceived agreement. The objective is to win approval of the customer company to allow the distributor to make a detailed study of his operation to see if it lends itself to a partnering agreement.
3. Study. This involves a complete systems analysis of paper flow involved in purchasing, along with the gathering of statistical information to establish the base for determining benefits from an agreement covering the product line under consideration.
4. Concept. This is nothing short of the presentation of a plan for implementing a partnering agreement with the customer. The customer must be shown how he will benefit and what is expected in return.
5. Item analysis. A detailed look at past purchases, usage, and prices paid for every item in the product category under consideration. This is needed to assure that the price level and profit margin are reasonable and equitable for both parties.
6. Final proposal. A detailed plan for supplying goods that spells out prices, service levels, and quality standards.
7. Implementation. Writing the requisition, trial period, and ironing out the rough spots that could hinder the operation of the agreement.
8. Reports. Continuous auditing and reporting on how well the agreement is being implemented.

approach can usually show a distributor the benefits to his organization more easily than a distributor can demonstrate the advantages to the customer.

The distributor, on the other hand, usually needs relatively more information about how the customer's business works than the buyer would need going in the other direction. To successfully sell a partnering agreement, a distributor needs to have a very good understanding of the prospect's business before he even wins an okay to make a study. Those who have the most success in selling partnering usually attribute their success to a sales staff that is good at collecting business intelligence.

## What buyers check out

The following list of characteristics is the most common one used by buyers to determine the technical capabilities of potential supplier partners. Actual scoring varies by buyers.

### 1. Financial

- a. D&B
- b. Other

### 2. Progressive-aggressive

- a. Market knowledge
- b. Technique
- c. Methods
- d. Policy
- e. Communications (customers and employees)
- f. Growth
- g. Future plans
- h. Enthusiasm
- i. Productivity

### 3. Product quality

Top grade vs class B, C, etc.

### 4. Location

- a. Same city
- b. A day away
- c. Three days away
- d. More than three days away

### 5. Inventory (breadth)

Length of line

### 6. Inventory (depth)

Quality of each item in the line

### 7. Inventory (performance)

- a. Stockouts
- b. Inventory control method
- c. Inventory turns

### 8. Physical layout

- a. Methods of handling
- b. Identification
- c. Method of processing orders
- d. Fast movers in front

### 9. Admin. talent

- a. Housekeeping
- b. Employee attitude
- c. Profitable
- d. Buying patterns
- e. "Hey-you" system
- f. Order processing

### 10. Engineering talent

### 11. Delivery

- a. Truck (own or lease)
- b. Daily delivery

SOURCE: ANDERSON ASSOCIATES, ORLANDO, FLA.

Before any presentation is made, an alert distributor will need to have a good idea of whether or not there is a good inventory fit. A typical rule of thumb is to look for a customer where at least 50% of the items that would be involved in the agreement are already in the distributor's stock and another 20-30% can be added to the stock with relative ease.

But whether the partnering agreement is initiated by the distributor or the purchasing professional, there is a great deal of selling that needs to be done in the customer's plant. Partnering, for example, is going to result in sole sourcing (or at least primary sourcing) for a whole range of goods. People who use the goods will need assurance that what they will get under the arrangement is as good as, if not better than, what they have been getting. Accounting types will need to be assured that the streamlined paper trail provides proper controls. Financial managers will have to be sold on the fact that partnering is really a sound method of spending the company's purchasing dollars. And in many of these cases the distributor's help in internal selling will be the critical factor in developing partnering agreements for MRO goods.

**It ain't snake oil.** Partnering won't solve all ills of the MRO market now or the market to come. It has practical limits of application. True, it's an important means for industrial distributors to win valuable volume increases and for both buyers and distributors to trim inventory costs. But, it is also true that if you looked at the customer base of the average industrial distributor you would probably find no more than 3-5% of the current customer base that would qualify as good candidates for a partnering agreement.

In terms of volume, the numbers are somewhat better. Still, even the distributors most active in partnering concede that their goals are to have partnering agreements account for no more than 50% of their sales volume. Many feel the reasonable topside figure may be closer to 30% than 50%.

A large number of industrial distributors do not see partnering in their future at all. They look at their businesses in conventional economic terms—as suppliers of quantities too small to be handled on a direct manufacturer-to-user basis. Buyers and distributors also agree that there is a large area of "specials" that is uneconomic to be handled under any kind of partnering agreement.

**Variations.** Even the assumptions of those who tout partnering the loudest have to be looked at closely. Many buyers and distributors tend to think of partnering in terms of what is generally called "pure systems contract agreements"—where the distributor is responsible for delivering an entire group of products at precise times, in precise quantities, and of guaranteed qualities. The service level for many of these pure systems arrangements runs between 90% and 95% fill rate within 24 hours. For many distributors the demands of this kind of an agreement are impossible to approach.

Actually, many of the most enthusiastic distributors see a much broader field of opportunity and sell variations on the theme. They sell modified programs based on one or more of the benefits generally attributed to partnering—paperwork elimination, inventory reduction, improved material flow, even better overall goods pricing. Typical variations include special stocking agreements, toolroom maintenance agreements, material management agreements, special kitting arrangements (where the distributor supplies all the tools or materials for a particular job in kit form), and long term blanket agreements where all of the characteristics of a systems contract are in place—but the agreement is verbal.

**How small?** Whether distributors are looking at the pure form or variations on the theme, partnering agreements do involve sizable costs. There must be a potential business volume to make such agreements cost effective for the distributor. How much volume is needed? That depends to a great extent on the level of service to which the distributor is committed. There's no hard and fast rule, but most distributors who have been in the partnering game for any time seem to hit on a figure of around $50,000 to $100,000. That's for a contract where the distributor is bound to a set standard of performance. Many distributors, however, will start a partnering agreement on a lower volume if the potential for future volume is there or if a lower level of service is acceptable.

**Prices vs costs.** Another of the sticky stumbling blocks to effective partnering revolves around prices. Many buyers want the distributor's better service level, but insist on the manufacturer's price. And that's a next to impossible demand on MRO-type goods. Partnering agreements are usually viable only when the volume covers a fairly broad product family and the pricing is based on a full range of products. If buyers are allowed to cherry pick the product line for the best prices, partnering will not work. The distributor needs all of the non-special items in the product line or the agreement will not work.

Pricing, therefore, can be a very serious complication in many partnering arrangements. On the distributor side, many companies persist in looking at pricing in terms of gross margins—without realizing the increases in productivity in his operation and the higher volumes will radically alter the economics he has become used to working with. On the other side, industrial buyers often try to compare the prices in a local partnering agreement with national contract prices. A national blanket contract works well where large volumes of a single item or a few items are involved. They don't work at all where multiple items are involved and where a specified level of service is more critical than a cheap price.

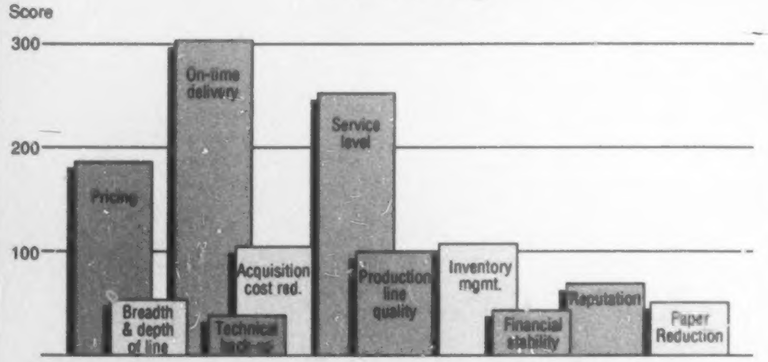
*(continued)*

## Partnering: The Four Commandments

While implementation of partnering agreements requires a great deal of work at the distributor-buyer level, distributors with good track records say there are also four very important steps to follow in winning the cooperation of their manufacturer suppliers.

1. Be forthright with suppliers from the beginning. Emphasize to each key supplier that you intend to become the sole source of a line of products to this customer. Tell each that you need and expect help in pricing, service, and quality assurance.
2. Make sure the supplier understands early in the game that the key factor in your sales story is service level.
3. Point out to the supplier that you want to continue to sell and represent his products in your territory and that the agreement will help to assure the growth of his company's product sales in your territory.
4. Back up your reassurances. As soon as possible establish a positive information program that periodically informs him on how you are selling his product and on future prospects. Make sure the information program is open-ended and gives him opportunity to introduce and explain his new products to your sales staff.

## The most important factors in selling



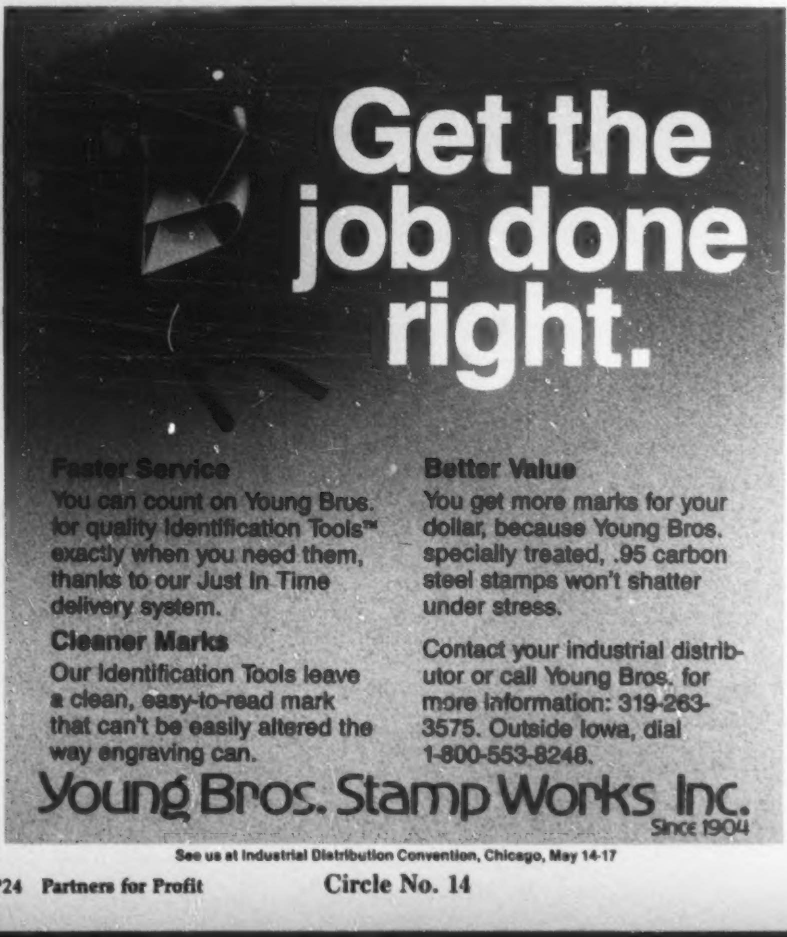
Service before price is the way distributors view what sells partnering-type agreements according to a recent study conducted by the Distribution Research & Education Foundation of the National Assn. of Wholesale-Distributors. Weighted score shows relative importance of each factor.

Indeed, many distributors who have been working at selling partnering agreements for a number of years say that getting buyers to stop thinking of them as glorified blanket contracts is one of the hardest hurdles they face. The irony is that many of their competitors are responsible for keeping the waters murky. Often competitors see the volumes involved in a partnering agreement and begin to key in on the business in terms of price. Without an understanding of the service level involved in the partnering agreement, the competitor with the low ball bid soon finds he is unable to deliver on his promises because he has not made any of the changes in his operating procedures that will lower his servicing costs.

Most good partnering agreements will result in major reductions in purchasing and distribution transaction costs. They will also greatly reduce inventory and increase output per employee both in the purchasing department and in the distributor's place of business. In many cases they will also result in lower overall pricing. Unfortunately too many people on both sides of partnering still look at individual prices before they ever look at the real economic benefits.

**Eight plus eight plus four.** Whether the agreements are being sold by purchasing or distribution, certain steps must be followed and documented or they won't work. There are eight steps that buyers must follow when selling partnering to distributors; and a different set of eight steps when the distributor is doing the selling. Although in many respects the steps are similar, they all must be followed for good partnering to result.

In addition to these selling steps, there are four "commandments" that distributors must follow in relation to the manufacturer/supplier if partnering agreements are to work. (See related sidebars.) ■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# BUSINESS REPORT

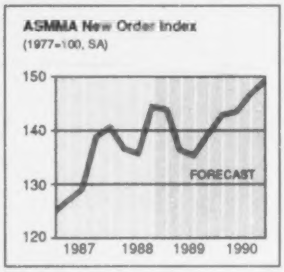
BY KRIS BLEDOWSKI

# Heavy equipment sales up

## *Nonelectrical machinery sector is hot*

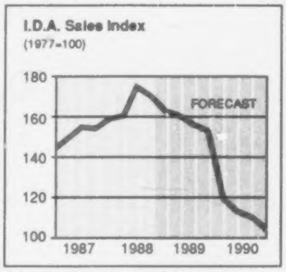
Nonelectrical machinery grew at an enviable rate of 13.8% in 1988 when measured by the value of shipments. The strongest sectors have been metalworking machinery, which includes machine tools, rolling mill machinery and various hand tools. Shipments of this category jumped 17.9% in 1988. Orders for machine tools have been running at an annual rate of over 70%, and a large order backlog guarantees continuing strong performance this year as well.

However, foreign orders are not expected to match last year's record levels, thus depressing growth. Consequently, shipments of metalworking machinery as a whole are forecast to inch up only 2.7% in 1989 even though machine tools will grow in double digits.



**Data source:** ASMMA
**Forecast source:** Cahners Economics

Another category showing strength is heavy machinery used for construction, mining and oil exploration as well as materials handling equipment. Shipments of these products rose 16.1% last year, propelled mainly by strong gains in both commercial and residential construction. As capital spending on equipment and structures rose over 10% in 1988, heavy nonelectrical machinery got a large chunk of it.



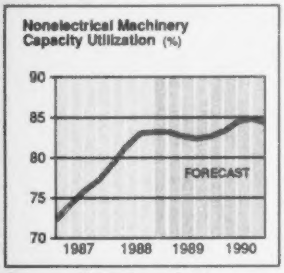
**Data source:** Industrial Distribution Assn.
**Forecast source:** Cahners Economics

Record output in the aerospace and automotive sectors drove engine and turbines shipments up 10.8% last year, mainly due to strong orders from commercial jet makers and passenger auto companies.

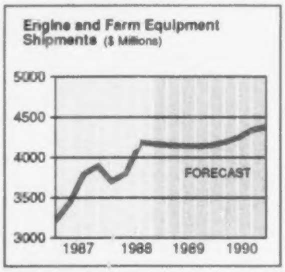
A large backlog of aircraft orders will send shipments of this category up 4.7% this year and another 3.4% in 1990.

Nonelectrical machinery as a whole has benefitted from an investment boom and increased foreign demand in 1988. However, this pattern is not likely to continue at the same pace. For one, exports will not show as much vigor due to a firming dollar and capacity constraints. American manufacturers still treat export markets as residuals, and if strapped for capacity, will always favor domestic end markets.

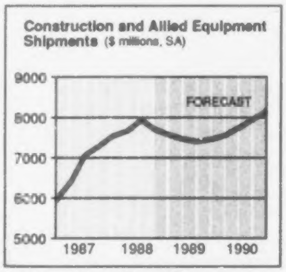
The capital spending spree will also cool off towards the end of the year as domestic demand slackens. One element stimulating growth will be low inventories and resulting trimmed inventory-shipments ratios. Expect shipments of nonelectrical machinery to advance 3.0% this year, 5.2% in 1990. ☐



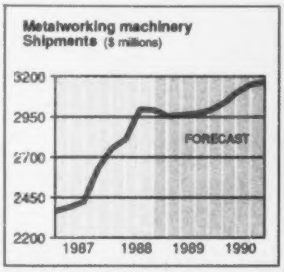
**Data source:** Federal Reserve Board
**Forecast source:** Cahners Economics



**Data source:** Dept. of Commerce
**Forecast source:** Cahners Economics



**Data source:** Federal Reserve Board
**Forecast source:** Cahners Economics



**Data source:** Dept. of Commerce
**Forecast source:** Cahners Economics

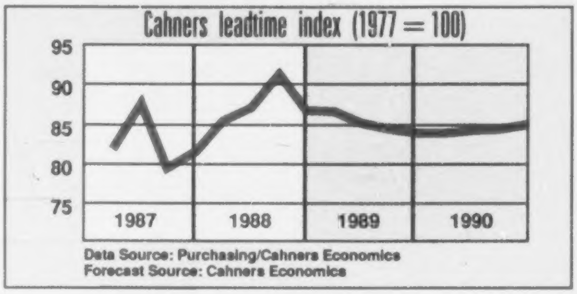
|  | SALES Average % Change |  | INVENTORIES Increase |  | No Change | Decrease |  |
|---|---|---|---|---|---|---|---|
|  | Jan. '89 vs. Dec. '88 | Jan. '89 vs. Jan. '88 | Percent Responding | Average Increase | Percent Responding | Percent Responding | Average Decrease |
| **EAST** | −0.3 | 13.2 | 29.6 | 3.3 | 37.0 | 33.3 | 3.7 |
| **SOUTH** | 10.1 | 30.2 | 52.4 | 5.5 | 33.3 | 14.3 | 4.7 |
| **CENTRAL** | 8.5 | 18.9 | 34.9 | 4.4 | 41.9 | 23.3 | 4.1 |
| **WEST** | −3.7 | 1.1 | 25.0 | 3.1 | 40.0 | 35.0 | 3.1 |
| **TOTAL** | 2.9 | 17.8 | 35.1 | 4.3 | 38.7 | 26.1 | 3.8 |

# SUPPLY OUTLOOK

BY KRIS BLEDOWSKI

## Price rises accelerate

*High capacity utilization pushes inflation up*



Data Source: Purchasing/Cahners Economics
Forecast Source: Cahners Economics

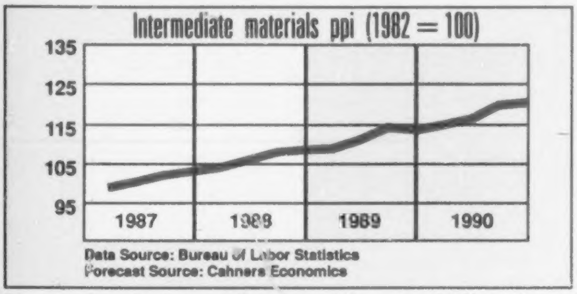
There are signs that tight supply conditions are finally showing up in higher prices for primary inputs and intermediate materials such as lumber, hardware and other building materials. This is a direct result of high capacity utilization rates in primary process industries as well as long leadtimes for chemicals, paper and metals. Producer prices for intermediate materials have been steadily edging up.

From an annual inflation rate of 2.4% by the end of 1987, prices went up 4.4% by the spring of 1988, and posted a 5.6% gain in January of this year. Inflation is expected to run at over 5% at least through the first half of 1990.

Advances in producer prices for intermediate products like gas and electricity have been higher than the overall producer inflation for finished goods. From an annual rate of 2.1% by the end of 1987, prices inched up only 2.7% by January of this year. However, January's monthly jump of 0.9% portends much higher rates. We forecast annual inflation to reach 4.1% by the end of the year, while the Fed makes controlling inflation its top priority.

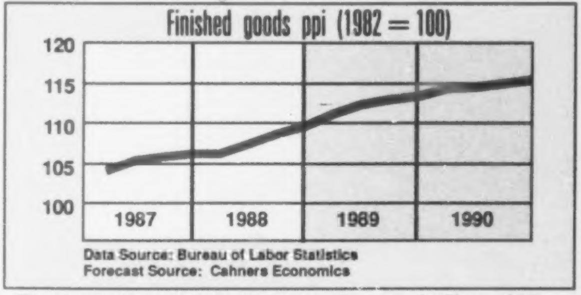
Tight supply conditions sent prices of selected product groups sharply higher. Fabricated metals inflation, for example, was running at an annual rate of 1.8% in December 1987 but reached 8.7% by January of this year. Meanwhile, power transmission equipment prices rose at a 3.8% annual rate in January, up from 1.2% in the same period a year before.

The underlying trend is for cost-push inflation to finally manifest itself after a long expansionary period during which capacity was underutilized. Now that the unemployment rate is about 5%, close to what economists call "the natural rate," higher wages will also exert upward pressure on total costs and, ultimately, prices at both the producer and consumer levels. ☐



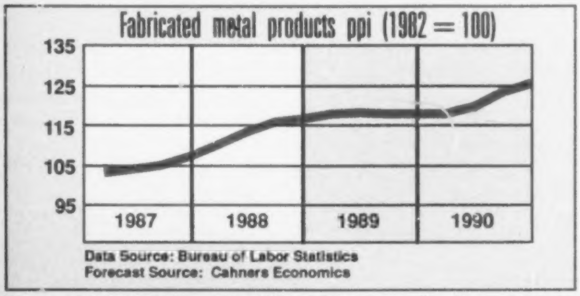
Data Source: Bureau of Labor Statistics
Forecast Source: Cahners Economics

**Expect prices for intermediate materials to top 4.9% by the end of the year because of tightening supply conditions.**



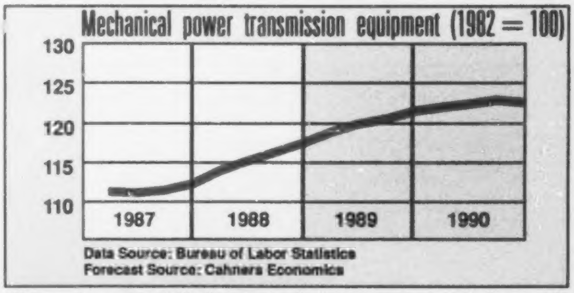
Data Source: Bureau of Labor Statistics
Forecast Source: Cahners Economics

**The finished goods inflation rate will reach 4.1% in 1989; expect the Fed to move in on the prime.**



Data Source: Bureau of Labor Statistics
Forecast Source: Cahners Economics

**Prices of fabricated metals, like castings and forgings, shot up to an annual rate of over 8%.**



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**After a long non-inflationary period, power transmission products are becoming more expensive.**

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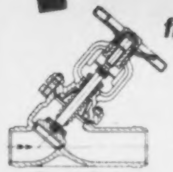
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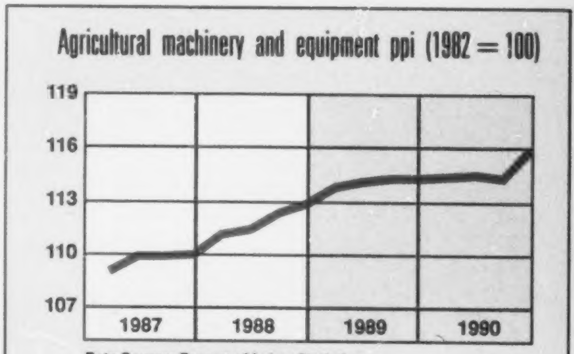
## SUPPLY OUTLOOK

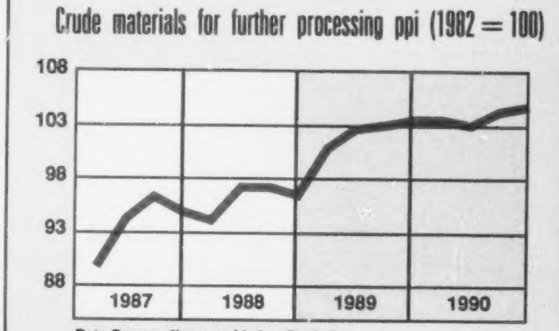
### Weak dollar spurs metalworking's output

Output of fabricated metal products rose a substantial 8.9% last year after meager growth of 2.7% in 1987. The reason lies in high demand for fasteners, stampings and forgings, which grew over 10%. Automobile and aerospace industries accounted for the bulk of stampings and forgings orders. In the subcategory of impression die forgings, orders totalled a record $3 billion in 1988, about 18% higher than in the previous year. Structural metal products (metal doors, sheet metal, etc.) also showed strength. Output of this category advanced 6% in 1988 while hardware, tools and cutlery grew about 7%.



Data Source: Bureau of Labor Statistics
Forecast Source: Cahners Economics

**Producer prices for agricultural machinery are forecast to remain stable through the end of the decade.**



Data Source: Bureau of Labor Statistics
Forecast Source: Cahners Economics

**One area where inflation has been muted is in crude materials for further processing.**

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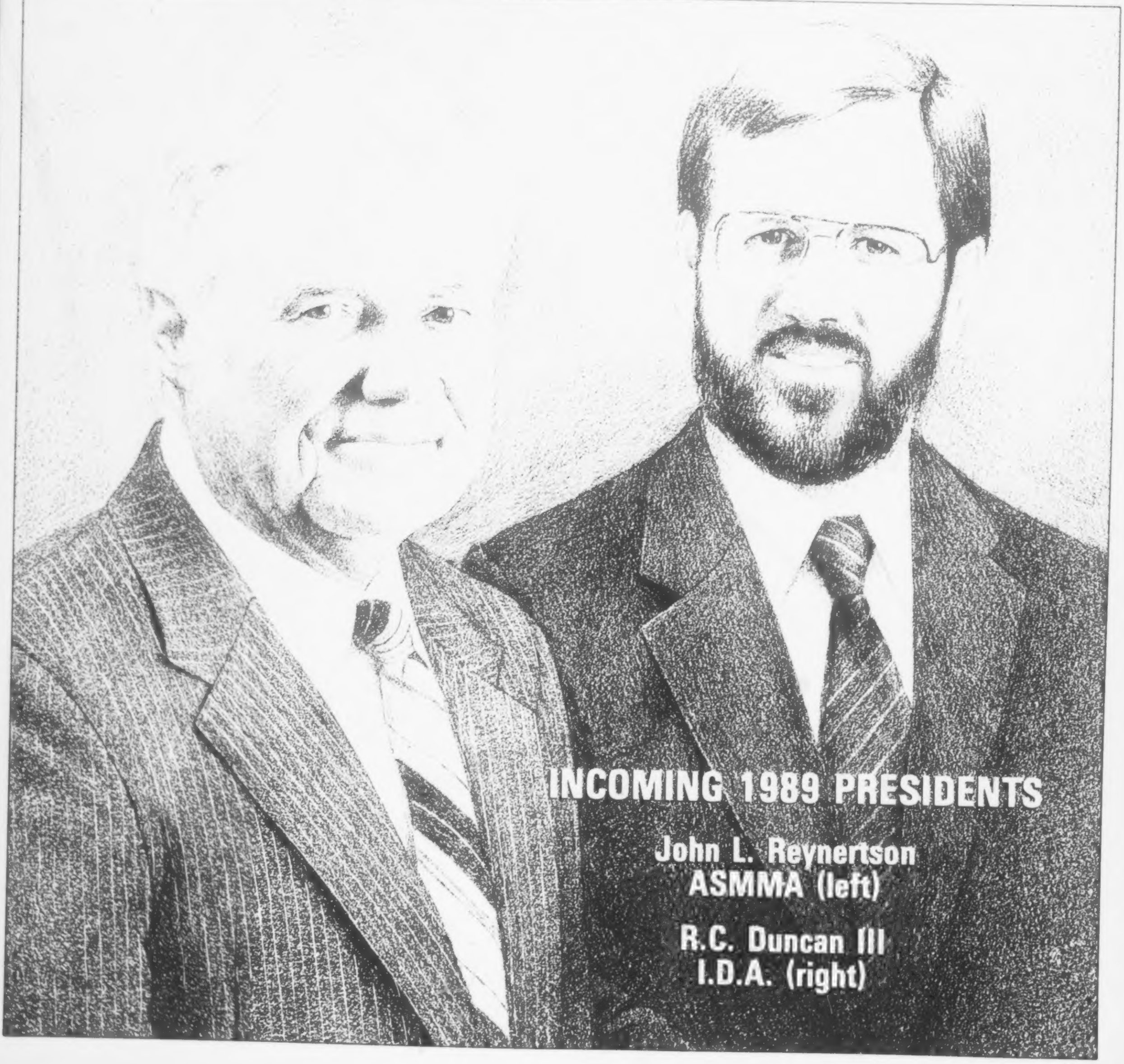
# Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

SPECIAL:

## The Industrial Distribution Convention



**INCOMING 1989 PRESIDENTS**

**John L. Reynertson
ASMMA (left)**

**R.C. Duncan III
I.D.A. (right)**

# Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 78, NO. 5 MAY 1989 A CAHNERS PUBLICATION

In charge in '89 will be John Reynertson (left) of ASMMA and Rusty Duncan (right) of I.D.A.

Using a three-pronged audit, Peter Femiak carefully researches potential distributors; p. 103.

CONVENTION COVERAGE

**42 Historic meeting at TIDC**
A new era begins as distributors and manufacturers gather at The Industrial Distribution Convention, May 14 to 17.

**49 Survey rates sales performance** In this report from the Western Regional, industry leaders review sales efforts.

WASHINGTON

**55 Distribution comes of age**
Led by dynamic lobbying efforts, distribution's top brass show that they can draw a crowd on Capitol Hill.

ECONOMY

**65 Hot markets to watch**
Pundits may predict recession's gloom, but Wall Street's money managers see certain markets as blooming brightly.

MANAGEMENT

**47 Conference Booth is focal point of convention**
It's *mano a mano* for distributor and manufacturer management as organizers slate eight and a half hours for Conference Booth discussion.

**69 Can value-added mean profits lost?**
Just-in-time buying and one-stop shopping threaten specialists.

**103 How to select a business partner**
Here's how one manufacturer chooses distributors.

**133 Partnering experiment yields $100K in sales**
An on-location MRO store saves money for the customer and raises profits for the distributor.

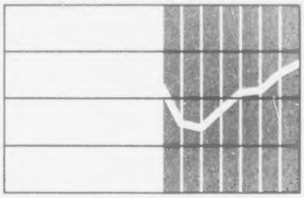
**139 Optimize your training dollar**
Tips on how to get the most out of your investment in training.

MANAGEMENT

**41 Inside Distribution**

**123 Open receivables shut down profits**

**199 Business Report**



No recession in '89.

**202 Supply Outlook**

**210 Clifton's View**
Tips on how to choose an EDI network.

SALES & MARKETING

**141 Strictly for Sales**
Training program focuses on selling basics.

DISTRIBUTOR'S UPDATE

**11 Distribution Briefs**
EDI software available; JIT conference set; MI breaks $500 million plateau.

**13 News**
PTDA issues white paper; Milwaukee distributor goes urban; Briggs-Weaver fetes suppliers; Mergers abound; FPDA works on image.

**144 Calendar**

**143 Association News**

**206 Advertisers' Index**

PROFITABLE IDEAS

**147 Computers**
Point-of-sale terminals give distributors retailing edge.

Industrial Distribution
THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 78, NO. 5 MAY 1989 A CAHNERS PUBLICATION

SELLING

**76 Salespeople: Distribution's problem solvers**
Here are looks at five salespeople from around the country who typify distribution selling at its best.

**87 ROTI increases sales 173%**
When you require a minimum return on every sales call dollar invested, both margins and sales grow.

**129 Videos make great sales tools**
Enter the video age to enhance your corporate image.

MARKETING

**94 Training breeds customer loyalty**
Educating employees who then educate customers helps K.J. Electric gain market share.

**137 Capitalize on call holding**
Don't give people who call your business the silent treatment.

COMPUTERS

**107 PICK OS eases data handling task**
Industrial Products committed to software that lets managers do their jobs their way.

**113 Six easy ways to protect your data**
Whether you're dealing with pc's or networks, basic procedures provide security and peace of mind.

VENDOR PROFILE

**119 Meggitt's message: Make it work**
Prophet 21's driving force has a vision that sees a computer in every distributorship.

By monitoring how his people spend their time, Chuck Connors optimizes their productivity; p. 87.

Ken Jacobs trains his people who, in turn, train his customers who, in turn, increase K.J. Electric's share of market; p. 94.

**149 Tech Notebook**

**151 Product Spotlight**
Scales.

**153 New Products for Profit**

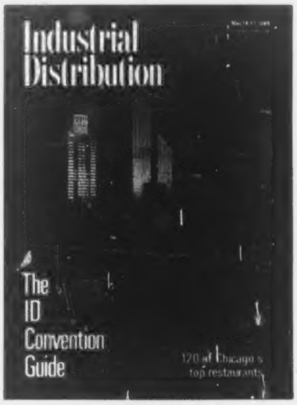
The latest products available from leading suppliers.

**175 Literature**
Monthly review of catalogs, brochures and data sheets.

**207 Business Staff**

**208 Classified Marketplace**

In Chicago, be sure to get your copy of **ID's** Convention Guide.



# NEWS

# Dramatic changes seen for MRO market

*Study points to growing importance of pt distributors in MRO marketplace; planning, quality control and training seen as vital.*

As major end users automate plants and factories during the early 1990s, power transmission (pt) distributors are expected to play an increasingly important role in the maintenance, repair and operations (MRO) marketplace.

This was the conclusion of a recently completed study sponsored by the Power Transmission Distributors Assn. (PTDA). The 130-page report, entitled *The Increasing Importance of PT Distributors: An Industry White Paper*, was based on telephone interviews with 56 plant engineers, maintenance supervisors, purchasing managers, distributors, and industrial manufacturers.

The report was researched, written and prepared by Edward L. Reid, Jr., president of Industrial Distribution Consultants and a professor with Texas A&M's industrial distribution program.

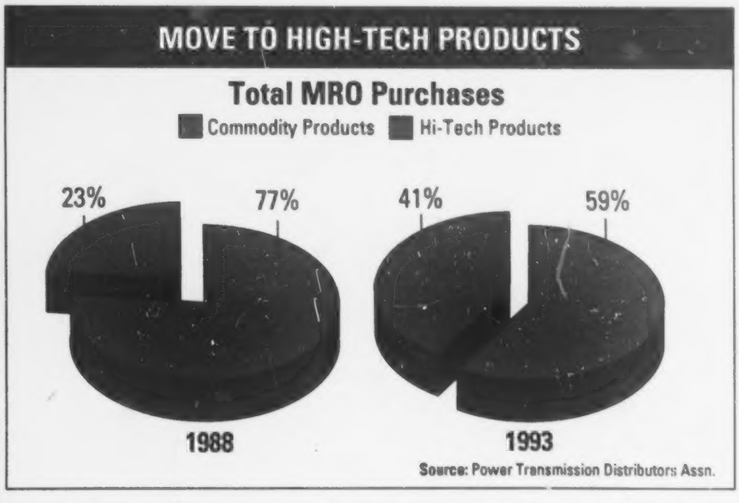
"What this report ultimately does is point out how automation is changing the industrial marketplace," Reid noted. "It also offers distributors suggestions on how to respond to these changing conditions."

PTDA Executive Vice President Beate Halligan noted that the study identifies four major trends impacting the industry. Specifically:

- Purchasing and maintenance departments are buying more factory automation equipment, and are becoming increasingly involved with the factory automation process.
- The percent of total MRO dollar purchases for high-tech MRO products will jump from 23% in 1988 to 41% by 1993 (see chart). High-tech products are defined as those which require support in selection, problem solving, applications engineering, and training. Some examples include programmable controllers, ac and dc electronic adjustable speed drives, and digital counters and controls. The percent of total MRO dollar purchases for commodity products will drop from 77% in 1988 to 59% by 1993.
- End users are looking to pt distributors and manufacturers for technical/engineering assistance and training.

"As the industry continues its rapidly changing pace, the association's membership felt that this was a good time to take a hard look at what the future holds," Halligan said. "The purpose of the study was to investigate trends in the MRO marketplace, determine what effects they will have on PTDA members, and help develop strategies to meet the challenges of the future."

The report itself goes far beyond Halligan's four-point analysis, providing readers with a detailed ac-



Source: Power Transmission Distributors Assn.

*As end users continue to automate, purchases of high-tech MRO products will nearly double during the next five years.*

count of the significant trends affecting the MRO marketplace. According to the report, the switch to automation has purchasing departments implementing MRO procurement programs. In many cases, these programs use high-tech capabilities to lower the cost of MRO inventory procurement and possession, as well as the total cost of the plant's operation.

As a result of this trend, the study reported, purchasing managers expect acquisition purchases of MRO supplies to decline from 11% of their total buys to 9.9% in the next 5 years. The drop in MRO purchases will continue throughout the next five years, the report noted, as purchasing managers recognize that MRO items make up a declining and relatively insignificant portion of their total purchases, and that several excellent opportunities exist to reduce acquisition and possession costs.

Texas A&M's Reid said that in response to these trends, distributors should evaluate their customers' MRO procurement programs to ensure that they will either be the number one or number two supplier in the local trading area they service.

Distributors can accomplish this, Reid said, by developing engineering and technical support for high-tech MRO products; implementing training programs on high-tech MRO products for their sales forces and end users; assisting customers in reducing the cost of procurement and possession of MRO products; providing the highest quality product lines; communicating high-tech capabilities to customers and vendors; implementing quality process programs; using facsimile, electronic data interchange and bar coding machines; negotiating systems contracts; and providing just-in-time delivery.

As Reid explained, "Particularly for distributors committed to selling strictly MRO commodities, if you are not currently implementing the various marketing strategies that will help you either dominate or be number two in your local trade area, plan to merge, sell or go bankrupt. The market will be that competitive."

The report also disclosed distributors' views on the changing relationship between manufacturers and distributors. Typical responses suggest that:

- Closer marketing partnerships will be required between manufacturers and distributors. There will be a tremendous increase in formal vendor evaluations by distributors which will assist in weeding out the partners who are not qualified for the aggressive marketing required to penetrate markets in the next five years. This trend will result in distributors reducing the number of commodity product vendors they represent.
- Manufacturers must support the move to electronic data interchange as part of the quality process programs being demanded by end users.
- High-tech distributors will also be required to sell commodity products. Electrical/mechanical products will not become completely obsolete.
- Manufacturers will need financially strong distributors and high value-added service distributors for support in high-tech markets.
- Price increases must be justified to convince the distributor that they are in the best interest of his customer. Customers must be competitive to survive, so there can be no more automatic price increases by manufacturers.
- Customers must pay more for the value-added services that distributors are now offering. Manufacturers must price for the distributor's participation. Many times the distributor's participation is beyond the traditional time, form, possession, and place utilities of the past.

To obtain a copy of *An Industry White Paper*, call PTDA at (312) 825-2000. The cost is $100 for association members, $300 for non-members. ☐

---

# F&D Tool marks 50th year in cutting tool industry

THREE RIVERS, MA—F&D Tool Co., developer of the original "step tooth" milling cutter, is celebrating its 50th year by renewing its commitment to industrial distribution.

Phil Duda, the company's president, said that F&D Tool will strengthen its distributor support this year in four distinct ways. He said the company has plans to increase its cooperative advertising, place manufacturers' representatives in key geographic areas, publish a newsletter geared toward distributors, and add several new products to its line. Some of the new additions include carbide tip cutters, TiN-coating, shell endmills, hollow mills, circular saws, and cobalt cutters.

"We are moving into an era where it's absolutely essential that manufacturers do everything they can to support their distributors," noted Duda. "I think you'll find that although we won't be adding distributors the way we did in the past, F&D will provide more support to its exisiting distributor base."

The company made its 100% commitment to distribution in 1966, the year Duda assumed control of the company. Duda said he made the move to work more closely with distributors because he believed it was the most effective way for F&D to increase its share of the national market.

And that commitment to industrial distributors has paid off. Duda said that the firm's sales have grown eightfold over the last two decades since it started selling exclusively through distributors.

*F&D Tool is marking the firm's 50th year with a push to increase its distributor support, notes company President Phil Duda.*

"There's no doubt in my mind that the relationship we've developed with our distributors is what's fueled our growth during the past 20 years," Duda said.

F&D was founded in 1939 by Duda's father, John Duda, Jr. Following his success with marketing

# Hot Markets to Watch

**By John G.F. Bonnanzio, Associate Editor**

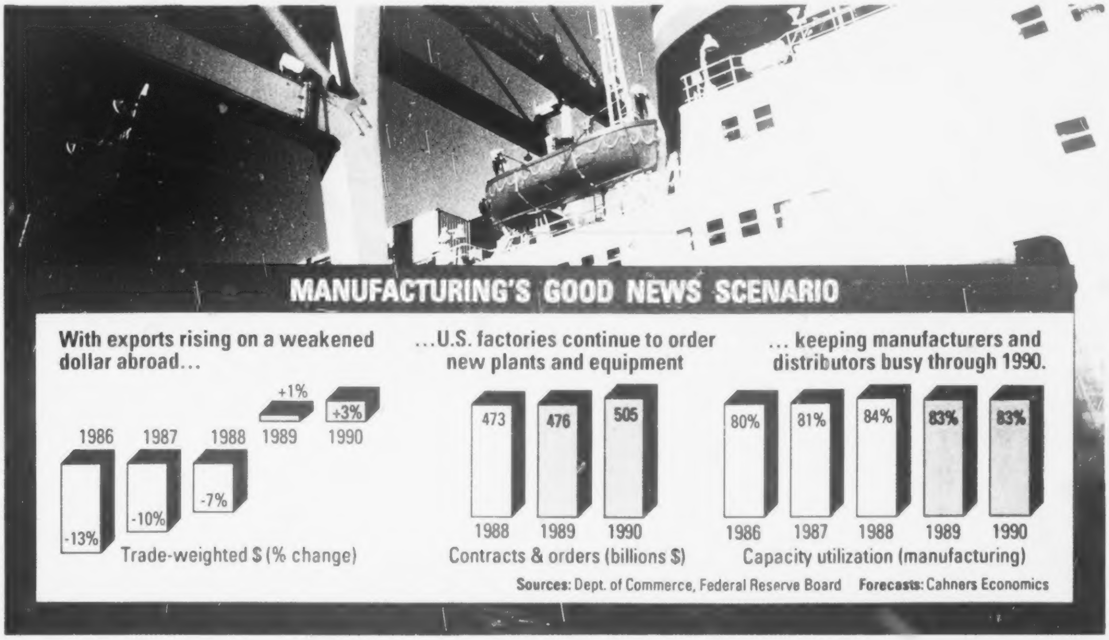
*Forget all that talk of recession. If Wall Street is correct, industrial output will remain strong over the next 18 months.*

On Wall Street, at least, David Sutliff's reputation precedes him. That's because the Salomon Brothers analyst has a pretty good record for spotting trends among capital goods manufacturers, and the trend he sees developing right now bodes well for industrial distribution.

At the heart of Wall Street's optimism for selected manufacturing stocks is this simple belief: Although the dollar is expected to rise slightly against most major currencies for the remainder of 1989 and 1990, it's ascent will be moderate, keeping U.S. goods competitive overseas.

Between 1983 and 1984 the high value of the dollar made American products too expensive abroad. And even while the domestic manufacturer's pot was starting to boil, export activity was weak, import activity increased, and the trade deficit continued to widen. By the end of 1984, however, the dollar went into a steady retreat, and U.S. producers found ready markets in Europe and even Asia, while manufacturing's ability to turn out products soared to record levels (see chart). The guesswork now focuses on how long and how high capacity utilization is likely to remain.

Because of manufacturing's high utilization levels and historically in-



MANUFACTURING'S GOOD NEWS SCENARIO

**Sources:** Dept. of Commerce, Federal Reserve Board **Forecasts:** Cahners Economics

## DISTRIBUTION'S FIVE HOT SUPPLIERS... ...AND FIVE HOT CUSTOMERS

**Earnings per share**
(Estimates in $)

| | 1989 | 1990 | % change |
|---|---|---|---|
| Cincinnati Milacron | 1.80 | 2.25 | 25.0 |
| Cooper Industries | 5.20 | 6.10 | 17.3 |
| Eaton Corporation | 6.50 | 7.00 | 7.7 |
| Norton Company | 4.85 | 5.25 | 8.2 |
| Parker Hannifin | 2.35 | 2.65 | 12.8 |

| | 1989 | 1990 | % change |
|---|---|---|---|
| Caterpillar Inc. | 6.25 | 8.00 | 21.9 |
| Duriron | 2.35 | 2.70 | 14.9 |
| Ingersoll-Rand | 3.75 | 4.50 | 16.7 |
| Sunstrand | 5.50 | 6.50 | 18.2 |
| Trinova | 2.75 | 3.05 | 10.9 |

**Source**: Salomon Brothers Inc.

efficient production techniques, factory automation and its sister technology, digital process control, have come of age (***ID***: Sept. '88, p.30).

In 1976, for example, only $1.6 billion worth of process controls were sold in the U.S. This year, according to the market research group Frost & Sullivan, sales will surpass the $5 billion mark. Says Sutliff, "The greatest strength in spending should continue to be in the process control, machine tool and aircraft component areas." In turn, he says, this will fuel capital expenditures through 1990.

### STRONGER MARKETS

For industrial distributors, such speculation can only be viewed as good news. But amid reports that the Federal Reserve is poised to quell an "overheated" economy by raising the prime rate, distributors holding inflation-prone inventory have generally welcomed rising prices. In addition, many suppliers would argue that it has been a long time since they've enjoyed being on the winning side of the supply/demand curve, and now the Fed is ready to call off the impending party.

Nonetheless, distributors selling to OEMs already active in export markets might expect their strong sales to continue for the 18 months ahead, particularly in a number of key manufacturing markets.

**Truck tonnage.** In 1988 the average age of all trucks in service was estimated at about six years. "When business is slow," explains Sutliff, truckers will maintain older trucks even though they have higher repair costs, are less fuel efficient and can be less reliable. However, when industry conditions are favorable," he says, "truckers strive to replace their fleets to rid themselves of these problems."

Also working in favor of the domestic truck manufacturer, as well as the distributor/supplier, is the continued weak dollar abroad. According to American Trucking Assn. estimates, domestically manufactured goods require four times as much trucking to reach their market as do imported goods. This is because foreign-produced goods are generally shipped more complete, while domestic goods have their components delivered from various points.

In drawing both of these relatively obscure observations together—increased trucking activity combined with the likelihood that shippers will upgrade their fleets—Sutliff believes that demand for truck tonnage will not decline, but rather flatten at a continued high rate of production.

**Machine tools/accessories.** Having curbed their spending in 1988, this year auto makers are expected to go on a buying binge to the tune of $11.7 billion. This is up 6.7% from a year earlier, a trend that Sutliff predicts will last through 1990. Also, manufacturers of industrial machinery, engines and other kinds of capital goods are all retooling.

The consequence of higher outlays for new plant and equipment is obvious for the nation's major suppliers of metalworking machinery and accessories. Cincinnati Milacron will experience a 12% rise in machine tool shipments in both 1989 and 1990, says Sutliff. In addition, sales of cutting and metalworking fluids, abrasives, and CM's high-tech line of coordinate measuring systems and lasers will find increased demand at home and abroad.

Prospects for Norton Co.'s line of 250,000 grinding wheels and 38,000 coated abrasives would also appear promising through 1990. Net income increased 43.8% in 1988 on rising sales of 11.8%, or $1.4 billion. Explains company spokeswoman Andrea Michaels, "Profit margins improved as a result of overall volume and cost performance, as well as some restructuring efforts." Last year Norton posted per share earnings of $4.39; Sutliff estimates earnings will rise to $4.85 this year and to $5.25 in 1990.

**Farm Equipment.** Despite Caterpillar's anemic performance in 1988, this year the company will increase its equipment purchases by 47%, much of which, notes Sutliff, "is allocated to advanced metalworking machinery."

Planning to harness some of this windfall is Ken Everett, president of W.D. Allen Tool & Machinery in Niles, IL. A certified Caterpillar distributor, Everett says that he "definitely sees the potential for increased sales due to Caterpillar's increased capacity." Part of that activity might appear in demand for four-wheel-drive tractors, says Sutliff, sales of which jumped 65% in 1988 but were still well below 1983, 1984 and 1985 levels. Further cautions depend in part on weather. Sales for combines were depressed in 1988 due to drought conditions, but how long they will last is anyone's guess.

In the meantime, Sutliff's stock picks are probably somewhat more reliable than the weather. His recommendations include: Cincinnati Milacron and Ingersoll-Rand on the machining side; Cooper Industries, Eaton Corp. and General Signal among the electrical and electronic manufacturers, and; Duriron and Trinova in the fluid power manufacturer's group. In all, 7 basic industrial manufacturers thought to outperform the S&P 500 during a 6- to 12-month horizon. Not too bad, particularly if you're preparing for the next recession. ☐

# Can Value-Added Mean Profits Lost?

*Manufacturers' adoption of JIT inventory techniques and "one-stop shopping" are making some specialty distributors uneasy.*

*Recent trends in manufacturing might now be favoring the general line distributor over the specialist. Or so speculates contributing editor Doug Harper. Here is his view.*

In the perennial swing of the pendulum that regularly occurs between general line distributors and specialists, general liners are once again in the ascendency.

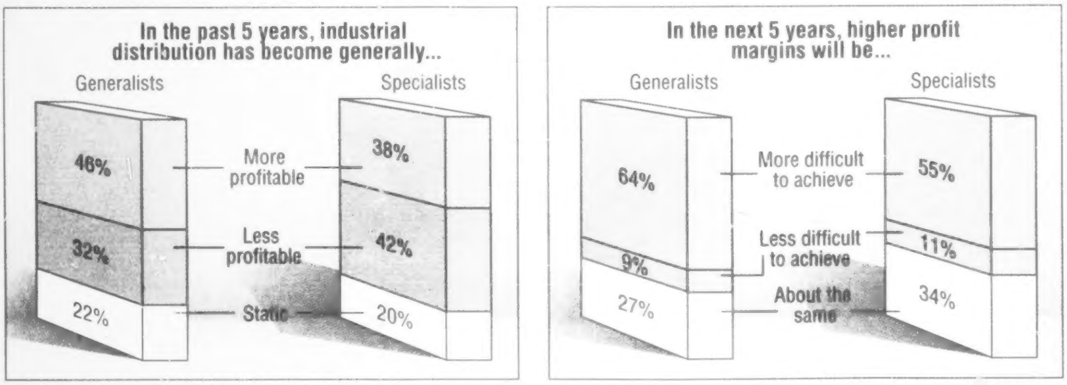
And the change has been as swift as it has been unexpected. As recently as 1986, ***ID's*** *40th Annual Survey of Distributor Operations* found specialists outperforming general liners in virtually every significant measure of business.

According to the conventional wisdom of the day, general liners had become mired in high-priced inventory requiring substantial overhead in terms of both warehousing and personnel. The future, said distribution gurus, clearly lay with the lean, mean specialists who not only had the advantage of lower inventory levels but, in addition, could provide profitable value-added services in the form of their technical expertise.

Other studies seemed to support this premise. The *1988 Distributor Productivity Report*, published jointly by the National and Southern Industrial Distributors Assns. (NIDA/SIDA), found that in several key areas, including return on net worth, payroll as a percentage of gross margins, and inventory turnover, specialty distributors consistently outperformed general liners.

But signs of change were already in the wind. The NIDA/SIDA report also noted that in 1987, for the first time in three years, sales growth among general liners exceeded that of the specialists. And by a substantial margin.

ASSESSMENT OF DISTRIBUTION'S PROFITABILITY



Source: Industrial Distribution

# Value-added

According to the report, sales growth among general line distributors as compared with that of specialists was as follows:

| | Generalist | Specialist |
|---|---|---|
| 1984 | 21.1% | 22.2% |
| 1985 | 3.7 | 6.6 |
| 1986 | 0.0 | 3.3 |
| 1987 | 6.3 | 4.7 |

**Source**: NIDA/SIDA

By the same token, *Facing the Forces of Change*, published by the Nat'l Assn. of Wholesaler-Distributors (NAW), predicted that the average number of product lines carried by a distributor would increase by 41%, with the average number of line items growing by 25%.

According to the authors of the NAW study, "More than 70% of the panelists agree that overall there will be an increase in the commodity lines, product lines and line items carried by the distributor. Yet, they expect the number of suppliers/vendors to decrease through 1995."

Most significantly, ***ID***'s 1988 *Survey of Distributor Operations* confirmed this trend (***ID***: July '88). When asked to assess industrial distribution's profitability in the past 5 years, 46% of general liners thought the business had become more profitable, while 38% of specialists agreed (see chart). Conversely, 42% of specialists indicated that distribution had become generally less profitable, compared to 32% of generalists.

When distributors were asked to look ahead 5 years, interestingly, 58% of all survey participants expected profits to be more difficult to achieve, however, 64% of general liners and 55% of specialists anticipated trouble ahead.

Spurring this trend may be the rapid move by American OEMs into just-in-time inventory techniques, and the desire to reduce purchasing costs by severely limiting vendor networks. As a result, many of the nation's largest inventory-intensive manufacturing companies, routinely accustomed to dealing with multiple distributors, abruptly insisted upon obtaining most of their supplies from a select few.

And just as suddenly, the specialist distributor found himself playing on an uneven field with somewhat less purchasing power due to an emphasis on smaller inventories but greater value-added expertise. In other words, while specialists were pitching their technical expertise, many OEMs heard the benefits of supermarket shopping.

### NEW RULES OF THE GAME

In 1985, as if to emphasize this "New Order," Du Pont chemical company announced that under its "integrated supply" concept, MRO material for 35 plants would be provided by just 3 distributors.

Today, the concept of integrated supply is widely accepted by the manufacturing community as both cost-effective and desirable. General Electric's Power Systems Div., for example, has selected a single-source vendor in the Northeast for such materials as abrasives, carbides, hand tools, and cleaning supplies.

The Ford Motor Co. is in the process of reducing its network of more than 3,000 distributors from which it buys more than $1 billion in MRO supplies each year. And Ford's purchasing officials cautiously predict that the day will come when they will contract with a single distributor to provide an entire plant with all of its MRO equipment.

### UNDER A "RIGOROUS" THUMB

However, Robert O. Dietz, president of the Assn. of High Technology Distributors and of the distributorship Miller & Dietz (Frazer, PA), feels that the reduction in the number of distributors is being used by some manufacturers as a thinly disguised effort to obtain reduced prices.

"I've been on both sides. And when you find yourself in that pleased-to-have-been-chosen role, you also find yourself under a fairly rigorous thumb," he notes wryly.

Dietz stresses that there is often a wide gap between the theory and the practice of integrated purchasing. "They say they're going to evaluate you on the basis of your professionalism and your ability to stay in business. They tell you they are going to conduct a financial review and analyze your products. And they tell you that they're going to look at your service and that all those things are going to be viewed in context along with price. And they say 'certainly we're not only going to be concerned with price.' So it sounds good."

The moment of truth arrives, notes Dietz, only after you have been selected by a customer. "The experience we've had is that when all of that is said and done, they can't resist telling you that being selected is quite a privilege and, therefore, you're going to get a lot of business, so they want your absolute bottom price because you're going to get all this volume."

Customers whose sole emphasis is on pricing may be losing the vital service aspects of their distributors, says Dietz. Under those circumstances, he says, "I don't know how you get value-added service that has any real service in it. That's why I think that the open system is still better. Because if there is value-added and if, in fact, we're different, that will stand out in a competitive situation."

Stuart Clark, executive director of the 1,500-member Nat'l Welding Supply Assn., says that although reducing the number of distributors a company deals with may be its goal, there are limits to how completely this can be accomplished.

## All specialists do not see integrated purchasing as an unmitigated evil.

"As much as the Du Ponts and the large firms might want to pare down the number of distributors they utilize," says Clark, "it just logically can't be done, at least not in the welding supply business." Most welding supply distributors work on extremely low profit margins, explains Clark, and it would be uneconomical for a distributor to deliver welding supplies over great distances.

"The welding supply industry is made up of a lot of mom-and-pop organizations that are already running at fairly low profit levels in comparison to many other businesses," Clark says. But he adds that in response to their current lack of bargaining power, there is a growing trend toward mergers and acquisitions in the industry.

"[Manufacturers] are using that leverage to go out and get purchasing contracts so that they can compete with larger distributors," says Clark. "But because the business has historically been fragmented, it frightens some distributors when [integrated purchasing] starts to grow."

But all specialists do not see integrated purchasing as an unmitigated evil. Jack Morrison, a former officer of the Material Handling Equipment Distributors Assn. and vice president of Morrison Industrial Equipment Co. (Grand Rapids, MI), can testify that the trend also presents unparalleled opportunities.

Morrison Industrial Equipment was approached by GM to become part of its "single-source" program. The distributor was ultimately selected to replace 28 others who had been providing parts and supplies to the automotive giant.

> 'There is often a wide gap between theory and the practice of integrated purchasing.'—Dietz

Morrison predicts that the trend toward reducing the number of suppliers among distribution's customers will continue and accelerate. "I think it will be more prevalent as we get into the 1990s," he says. "And the number of suppliers is going to be reduced not by 10% or 20%," he predicts, "but by 50% or more."

Morrison says that, in his company's case, he is optimistic concerning the future. "We've been preparing for this and we see it as the trend of the future. Manufacturers are finding out that they may know how to make automobiles or baby food but they're not experts in controlling inventory. And in the 1990s, I think they are going to rely more heavily on other people to handle all kinds of service functions for them."

### CONCERNED ABOUT THE FUTURE

Gary Dulmes, first vice president of the Power Transmission Distributors Assn. (PTDA) and executive vice president of Mainline Industrial Distributors (Appleton, WI), says that although radical amputation of distributors by customers is not yet the norm, it is spreading.

"The trend that is typical is a general reduction of vendors of the kind that Du Pont made. We are very concerned about what the future of that trend holds for us," the young executive says.

He adds that many of PTDA's members are small and medium-sized independent distributors who rely heavily upon their expertise and familiarity with their customers' plants. "That could be lost in the bigger picture by some of the corporate purchasing managers who are spearheading these things. Many of our members are very concerned about whether it might impact them or not," Dulmes notes.

He says that in some of the blanket contracts, "power transmission has just been swept into the pot, although I'm somewhat skeptical about the workability of this thing in the PT area because," he says, "there is a high degree of application expertise expected."

As a result, says Dulmes, he is cautiously optimistic that such specialties as PT will remain largely immune from the cost-cutters. "There is, however, a certain percentage of our products that has been commoditized. It depends on how the buyer wants to view that," he adds.

But some specialists are created more special than others. Ralph Nappi, director of education and communications for the American Machine Tool Distributors Assn., says that his type of distributor is largely exempt. Because machine tools are frequently modified to customer specifications, Nappi says it is unlikely that they could ever be handled by a general line distributor.

In addition, says Nappi, demand for machine tools has been extremely strong for most of the last 18 months. Delivery times for some machine tools are as much as six or seven months. As a result, suppliers can't be too choosy when it's in their own best interest to get a product as soon as possible.

"Right now, the move by customers to consolidate their suppliers is not something we're seeing as a regular trend. It's not a brand new idea either," he concludes.

But whether their product-specific knowledge and technical expertise will protect specialists from the sharp pencils of the corporate cost-cutters remains to be seen. What is certain, however, is that just-in-time and integrated purchasing are altering the distribution landscape for better or worse. Only time will determine whether integrated purchasing is a bane or boon for distributors who specialize. ☐

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Circle No. 50

# Open Receivables Shut Down Profits

*Industrial distributors can increase their cash flow and thus their profitability simply by improving collection tactics.*

**By Les Kirschbaum**

Cash is going to be the password to business successs in the coming years. Companies that accumulate cash and provide for adequate liquidity are going to have the best chance of survival. Companies that ignore the reality of cash and fail to create sufficient reserves are in for difficult times, especially if the cost of borrowing money continues to move upward.

Vital to any distributor's long-term financial strategy, cash will play a significant role and, in turn, will highlight the importance of accounts receivable management—in addition to overall cash management—as a matter for renewed company attention. Through the management of accounts receivable, a company's credit manager will become an indispensible player in this game.

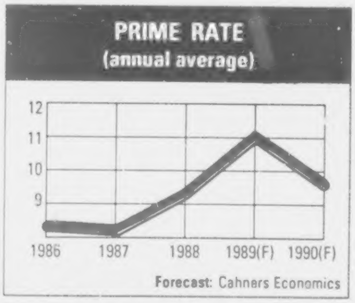
To be successful, a credit management department must establish clear-cut working policies, both internal and external, that will promote the best turnover of cash possible. The credit manager's staff must gain an understanding of the firm's overall strategic plan, then implement procedures within the department that give the company the best chance of meeting its overall business objectives.

### REELING IN RECEIVABLES

To respond to these conditions, industrial distributors of every type must create the conditions of effective cash flow. The first such step should be to clearly define your business's terms. The best time to do this is with a customer's first order. Consider calling new customers 10 to 15 days prior to the due date of the first invoice. Thank them for their business, ask if there were any problems with the orders, and whether the invoices have been received.

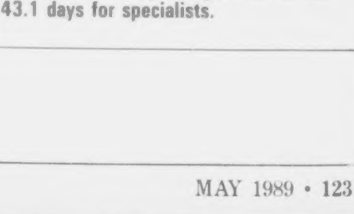
At that point, be sure to remind the customer when the payment is due, and clearly define your credit terms. Remember, once bad habits start, they are difficult to break.

Next, concentrate in-house collection efforts between 31 to 60 days. According to ***ID***'s *1988 Survey of*



Forecast: Cahners Economics

**As the cost of borrowing rises, the need for reining in receivables will become increasingly important.**



Source: Industrial Distribution

**Between 1983 and 1987 receivables have averaged 42.3 days for generalists and 43.1 days for specialists.**

# Receivables

*Distributor Operations*, the typical distributor has receivables outstanding for 43.7 days (see chart). This is the critical time where cash flow maintains momentum or breaks down. Most people in this category do not create collection problems, but are merly slow payers. Focusing your collection efforts in this time frame, through either letters or by telephone, should accelerate the payment process and enhance cash flow.

If your company's terms are net 30, make the first call on day 31 and arrange a definite payment schedule. Be persistent and provide close follow-up. There is no need to be heavy handed to the point of losing business, but you should be firm in clarifying that your goal is to be promptly paid when accounts are due.

At 60 to 90 days, make firm decisions. Is the organization still a customer or does it have a collection problem? If it is decided to retain a late-paying company as a customer, you might set up a COD + plan (cash on delivery, plus part of the delinquent balance with each order). Or try a CIA + plan (cash in advance plus the same terms). Either way, create an ongoing business relationship that you are willing to live with, but insist upon adherence to your company's collection policies.

### A TIME FOR ACTION

When receivables are open more than 90 days, seek commercial collection involvement. This is the time for outside collection intervention by a third party. By using this collection source as an extension of your credit department (or the individual who normally handles late receivables), your entire staff is free to bring in the cash during the 3-to-60-day optimum timeframe.

But long before a collection agency is needed, industrial distributors can spot potential collection problems in advance, if they take note of several warning signals. Some signs to watch for include: pledging of accounts receivable to a bank, collection claims, suits, judgments obtained by other suppliers, refusing to share financial information, and abrupt and frequent change of banks.

Before credit is extended, a company can analyze a potential customer's credit information to determine whether the firm is a good credit risk. When the information on a prospective buyer is gathered and successfully evaluated, the appropriate credit decision will contribute to your company's sales, cash flow and bottom-line profit.

Credit decisions are usually based

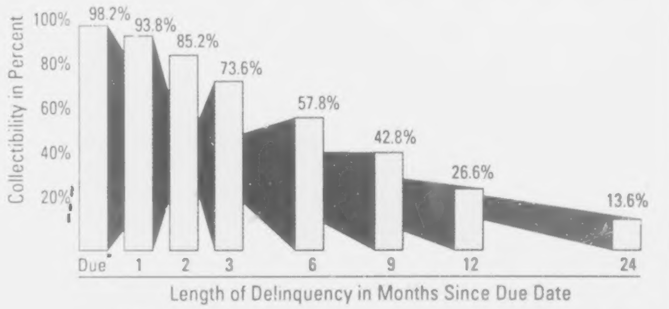
## How to find a reputable collection agency

As with any other sound management decision, the choice of a collection agency should be made carefully. Because that company represents your business in a sensitive area, choosing an agency requires a thorough investigation.

When researching a collection agency, the first thing you will want to know is how long it has been in business. Next, you will want a list of references in your geographic area, preferably from those agencies with experience in industrial distribution. Also, many states require collection agencies to be bonded and/or licensed. Find out what your state requires by checking with either the state's department of regulations or the attorney general's office.

In order to obtain a listing of agencies in your area, contact the Commercial Collection Agency Section of the Commercial Law League of America in Bethesda, MD. Their telephone number is (301) 365-2224.

By following up on references, you can evaluate a collection agency and, in the end, help close delinquent accounts.



**Source:** Commercial Collection Agency Section, Commercial Law League of America

**The chart above demonstrates that the collectibility of delinquent commercial debts decreases dramatically with the length of delinquency.**

## Stepped-up collections are worth the trouble

**Without a persistent and consistent collection program, businesses waiting to receive delinquent payments after 6 months stand about a 50% chance of seeing the money.**

**Statistics compiled by the Commercial Collection Agency Section of the Commercial Law League of America show that the collectibility of delinquent commercial debts decreases dramatically with the length of delinquency. For example, the chance of collecting a payment that is 2 months late is 85.2% (see chart). After a year has passed, collectibility falls to 26.6%, and after 2 years, a very unpromising 13.6%.**

**The best way to combat this problem is to push for collections immediately, even before payment is due. For starters, make sure your customers know your terms of sale and state them clearly and precisely.**

**If a payment does not arrive on time, make that first collection call immediately. Don't wait 45, 60 or 75 days. As the chart indicates, once you allow a customer to lose interest in paying a past-due account, the chances of ever collecting diminish rapidly.**

on information obtained primarily from trade or supplier references, credit reporting agencies, salespeople, personal visits, bank references, and financial statements. The most important point to consider about any of these sources is their timeliness. Most are not current when they reach your desk. Financial statements may be desired when large-volume customers are being considered, particularly when they require a commitment to increased inventory.

> When receivables are open more than 90 days, seek commercial collection involvement.

Reporting agencies may promise "current" data, but larger agencies' reports are often 90 days old. And if a marginal account or an account in a volatile industry is being considered, a 3-month-old credit statement could be disastrous.

That's why trade references, along with bank references, are undoubtedly the best sources of current, accurate credit information. Reports through trade groups and banks can be requested by mail or telephone. The latter may be preferable for several reasons: First, utilizing the phone will help you obtain the information fastest and; second, one can generally speak with the credit executive or another person in authority so that the most current and correct information can be exchanged.

On the other hand, telephone requests for "classified information" sometimes require written requests to assure that information is passed only to authorized users.

Whichever method is chosen, improving collection procedures to increase a company's cash flow can only benefit industrial distributors. By instituting policies and practices such as those described, you can reduce your company's problems with open accounts receivables. ☐

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EDITOR'S NOTE: Les Kirschbaum is president of Mid-Continent Agencies, Inc., a commercial collection agency based in Glenview, IL.

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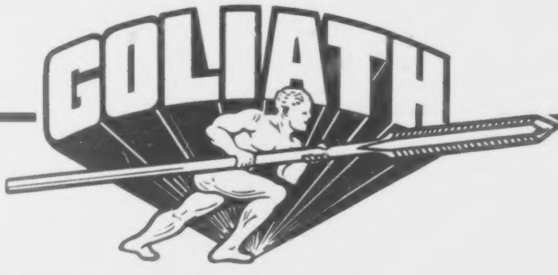

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MANAGEMENT

# Optimize your training dollar

**By Dr. Demo A. Stavros**

Research we have conducted at Eastern Michigan University in Ypsilanti, MI, reveals that the knowledge employees gain during training sessions can be easily forgotten if it is not immediately used or reinforced.

For example, the day following a training session, employees generally lose 66% of what they learned unless management sees to it that the information covered during the session is used or reinforced on the job (see chart).

For training sessions to truly succeed, you have to constantly ask yourself what you hope to gain from training your employees. Some common goals include helping customers help themselves solve problems, increasing the productivity of your work force, increasing the efficiency of your internal systems, improving employee morale, and increasing the company's profits through better customer service.

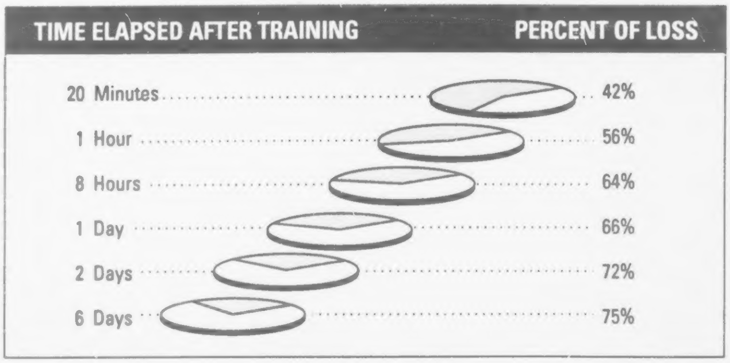
To get the best possible results from training, once you've decided to send an employee to a training session, start preparing that person for the course. Sometime before the employee attends the training session, review the course's subject matter and the reason why the employee is attending the course. Lay out carefully your expectations, the amount of time the training should take and any travel arrangements the employee must make.

One or two days before the training is scheduled, review the course in detail and ask the employee what he or she expects from the course. So that he or she can obtain the most benefit from the training session, remove all work responsibilities to allow full concentration on the course. If the employee is a manager or supervisor, formally appoint someone to temporarily take over this individual's supervisory tasks. During the course, contact the employee at least once, but never interrupt a class. In addition, set up an appointment for review upon the employee's return and arrange for regular follow-up.

Once the employee returns from the training session, conduct a formal interview. Find out what was good and bad about the course. Agree on implementation of new knowledge. Put into motion agreed upon changes, and be sure to enforce them periodically. In addition, organize a presentation for the employee to share his or her insights with fellow employees if appropriate, place a record of the employee having attended the session in his or her permanent file and make recommendations as to whether others should or shouldn't attend the course.

While numerous companies have proven time and again that a trained employee simply has the knowledge to do a more effective job, it is clear that the businesses that have derived the most benefit from training programs are those in which management prepares employees thoroughly, and quickly utilizes and reinforces what has been learned. Without direction from management, any training is destined to have a minimal or transitory effect. ☐

EDITOR'S NOTE: This article is based on lecture materials prepared by Dr. Demo A. Stavros, director of the industrial distribution program at Eastern Michigan University in Ypsilanti, MI.



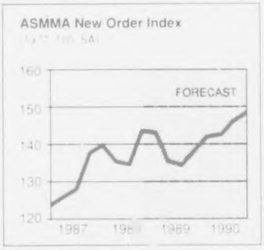
**An employee's retention rate can nosedive if the subject matter is not reinforced, according to research by Eastern Michigan University.**

# BUSINESS REPORT

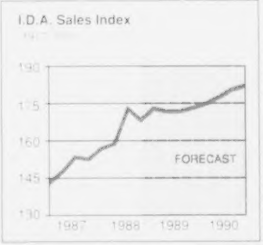
BY KRIS BLEDOWSKI

## Economy Slowing

*But there will be no recession in 1989*


ASMMA New Order Index (1977=100, SA)

Data source: ASMMA
Forecast source: Cahners Economics


I.D.A. Sales Index (1977=100)

Data source: I.D.A.
Forecast source: Cahners Economics

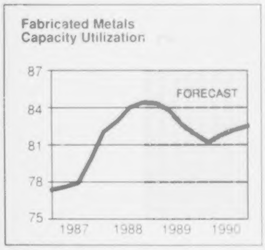
Recent economic indicators make some people uneasy and confused. February's unemployment rate dipped to 5.1%, the lowest figure in several years. And producer prices shot up at an annual rate of over 6% in the first two months of the year. At the same time industrial output was down and capacity utilization decreased, signalling that the pace of growth has slowed. The Fed's hike of interest rates was an admission of fear that the set of positive indicators was too strong to sustain the continuation of the noninflationary growth.

However, there are no visible signs of an inflationary spiral. Wages have been growing slowly for the past year, and at about 3%, the gain was in line with inflation. The producer price index did rise 1.0% in January and again 1.0% in February, but expectations of persistent price increases have not been embedded in general business behavior. If anything, people expect lower demand in the future and lessening pressure on prices. The confidence index of both consumers and business leaders is high.

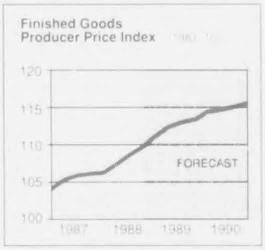
The economy has reached a plateau which is confirmed by government indicators sputtering around without a trend. Manufacturing industrial production was unchanged in February as was total industrial output. Both indices were over 5% higher than a year ago. Output of fabricated metals was virtually unchanged for four months while that of transportation equipment declined for the second month in a row.

Lower output was matched by lower use of capacity—a significant testimony to a cooling economy. Capacity utilization in manufacturing declined for the first time in 13 months, while the fabricated metals sector's capacity use peaked in November 1988. In both categories the index declined 0.2% in February and is expected to keep falling until the end of the year.

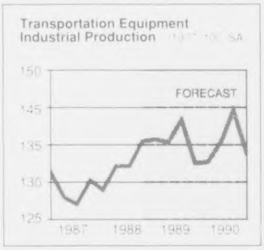
Finally, high inventories do not yet signify involuntary accumulation of stocks given persistently high inventory-shipments ratios. Sales have not fallen short of expectations due to a large backlog of unfilled orders. Overall, we will not see a recession this year. However, do expect that the growth rate is going to be checked. ☐


Fabricated Metals Capacity Utilization (%)

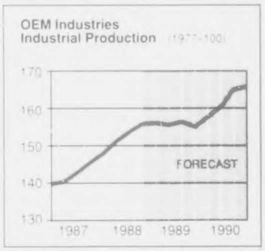
Data source: Federal Reserve Board
Forecast source: Cahners Economics


Finished Goods Producer Price Index (1982=100)

Data source: Bureau of Labor Statistics
Forecast source: Cahners Economics


Transportation Equipment Industrial Production (1977=100, SA)

Data source: Federal Reserve Board
Forecast source: Cahners Economics


OEM Industries Industrial Production (1977=100)

Data source: Federal Reserve Board
Forecast source: Cahners Economics

|  | SALES |  |  | RECEIVABLES | INVENTORY |  |
|---|---|---|---|---|---|---|
| (1977=100) | Feb. 1989 | Jan. 1989 | Feb. '89 vs Feb. '88 % change | Feb. 1989 days | Feb. 1989 % increase | Feb. 1989 % decrease |
| **TOTAL** | 176.2 | 177.2 | 13.7 | 42 | 5.8 | 7.6 |
| **EAST** | 151.7 | 155.7 | 9.5 | 50 | 2.0 | 4.1 |
| **SOUTH** | 249.1 | 251.6 | 27.8 | 45 | 1.0 | 2.4 |
| **CENTRAL** | 143.3 | 150.5 | 8.1 | 42 | 8.0 | 14.0 |
| **WEST** | 220.3 | 189.4 | 16.3 | 35 | 6.0 | 1.7 |

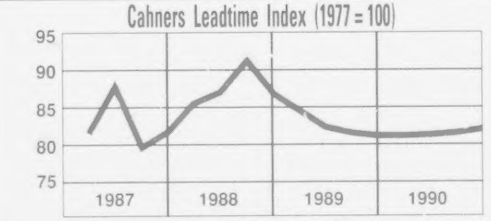
Source: Industrial Distribution Association

# SUPPLY OUTLOOK

BY KRIS BLEDOWSKI

# I.D.A. Members' Sales Up

## *But a slowdown is imminent*



**Data source:** *Purchasing* Cahners Economics
**Forecast source:** Cahners Economics

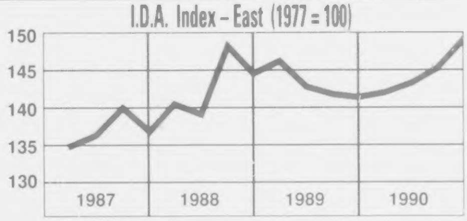
Cahners Economics/Research in cooperation with the Industrial Distribution Assn. (I.D.A.) has begun to conduct monthly surveys of members' business activity. The sample includes about 90 original I.D.A. members who have consistently been polled by the organization as well as 150 businesses surveyed by Cahners. Results from both sources are then tabulated by Cahners Research and a summary appears regularly in Industrial Distribution's *Business Report* (see p.xx).

The latest statistics show a consistent pattern of strong growth in all four geographical areas (East, Central, South, and West). Distributors in the southern states reported the highest sales gains (14.0%) last year, followed by the central region (9.8%), West (6.8%), and East (4.5%). In all four cases the cyclical activity mirrored that of industrial production very well.

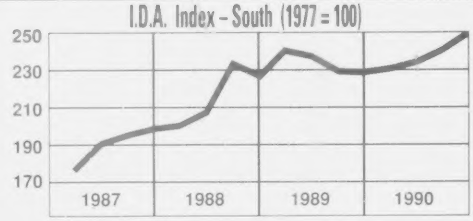
However, when evaluated in terms of rates of change, the pattern for the East and South was consistently below that of a national output index. One explanation for this could be exports. As the overall economy experienced a boom in foreign sales during the past few years, the national index outperformed that portion of the economy which relied primarily on domestic business. In general, the cyclical variation in sales of each region was well correlated with the index of industrial production for that region.

Our forecast calls for sales to cool off during the year. At 7.8%, the South is again going to grow the fastest, followed by 2.4% in the West, 1.5% in the Central states, and no growth in the East. For now, Cahners expects that growth will continue through the first few months of 1989 and decline sharply towards the end of the year as capital spending and new construction abate, although this view is not universally shared (see Hot Markets, p.xx). Low inventory-shipments ratios in the OEM industries in 1987 and 1989 should lengthen this year. As the economy cools off toward the end of 1989, the I/S ratio should jump to an average of 2.17, up from 2.15 in 1987 and 2.09 in 1988.

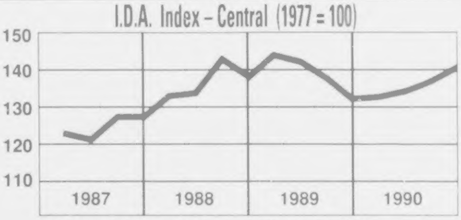
But the ebb will be shallow and short-lived and the economy will certainly not experience a recession. By mid-1990, distributors should expect stronger demand from most end markets continuing through 1991. ☐



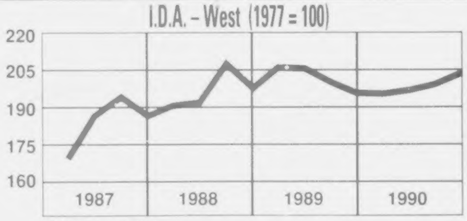
**Data source:** I.D.A.
**Forecast source:** Cahners Economics



**Data source:** I.D.A.
**Forecast source:** Cahners Economics



**Data source:** Financial Management Committee: I.D.A.
**Forecast source:** Cahners Economics



**Data source:** I.D.A.
**Forecast source:** Cahners Economics

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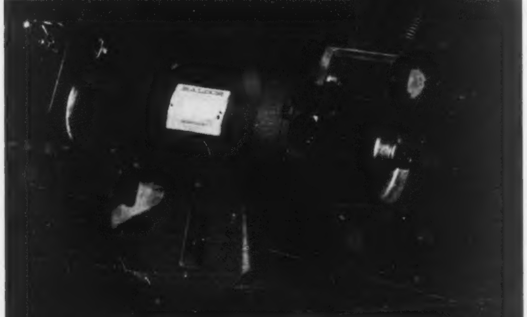


BALDOR

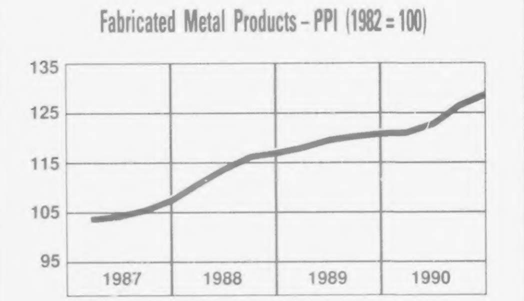
industrial motors...
industrial grinders & buffers

Circle No. 158

# SUPPLY OUTLOOK

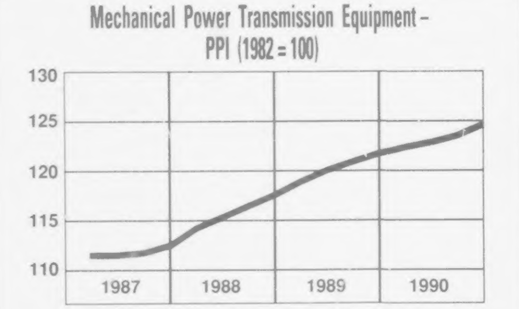
## Increased capacity utilization pushes prices

Tight supply conditions across a spectrum of industries sent prices of selected product groups sharply higher in the first months of this year. Fabricated metals inflation, for example, was running at an annual rate of only 1.8% in December 1987 but reached 8.7% by January of this year. Similarly, power transmission equipment prices rose at a 3.8% annual rate in January, up from 1.2% in the same period a year before. The underlying trend is for cost-push inflation to finally manifest itself after a long expansionary period during which capacity was underutilized.



**Data source:** Bureau of Labor Statistics
**Forecast source:** Cahners Economics

**Prices for fabricated metals were 8.7% higher in 1988 but inflation should abate in 1989 despite tight capacity.**



**Data source:** Bureau of Labor Statistics
**Forecast source:** Cahners Economics

**The rate of inflation for power transmission equipment was almost three times as high in 1988 as it was in 1987.**

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JUNE 1989
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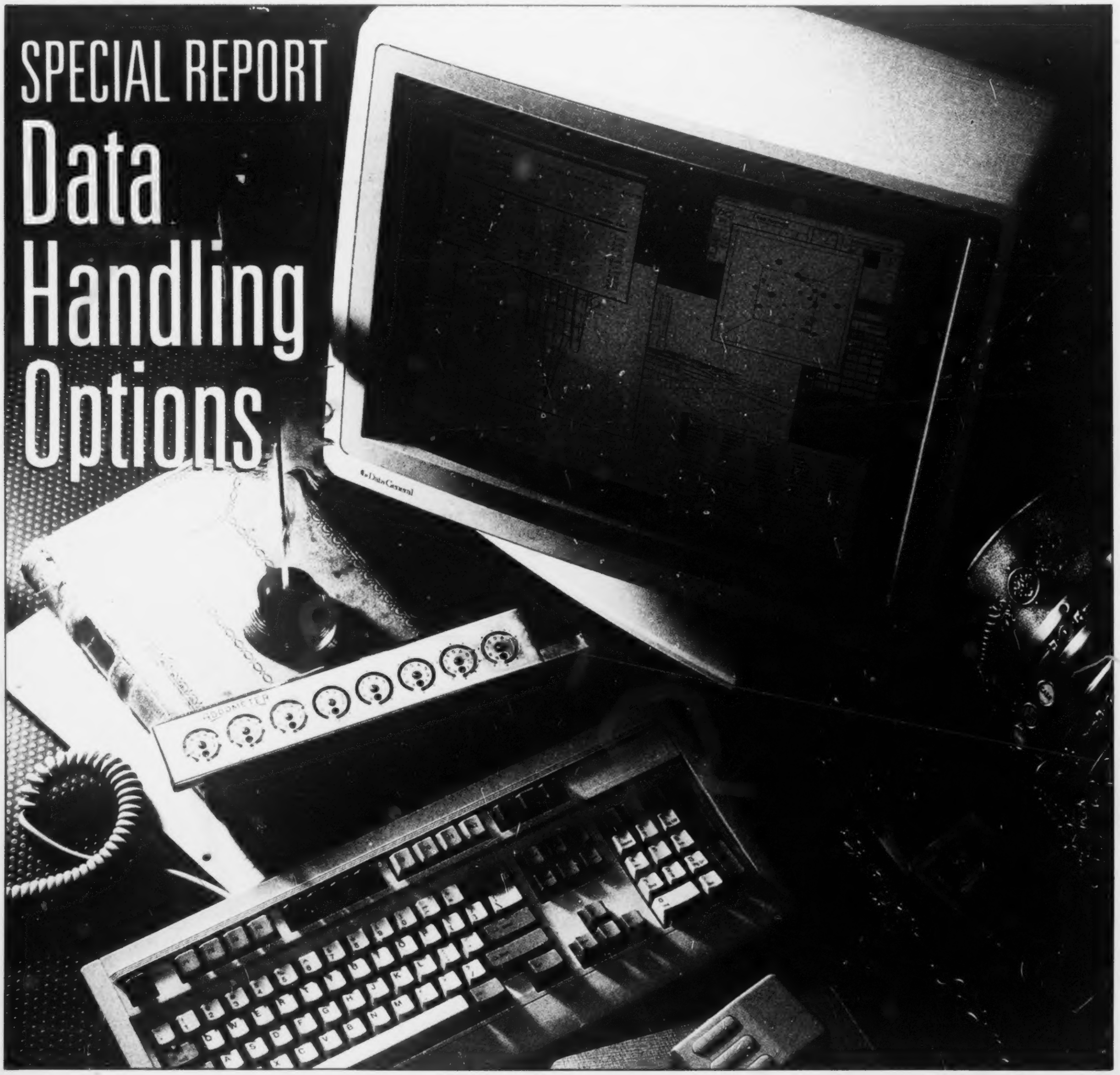
# Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS



## SPECIAL REPORT

# Data Handling Options

# Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 78, NO. 6 JUNE 1989 A CAHNERS PUBLICATION

Technical advances do make data easier to manipulate, but they also provide you with more information to think about; p. 19.

Cover art supplied by Data General

EXCLUSIVE SURVEY

### 5 Salary Survey

Fill out the questionnaire now; read the results in November—ALL replies kept CONFIDENTIAL.

COMPUTING TECHNOLOGY

### 19 Pick a winner

Opt for an operating system that organizes your computer in a way that suits your business.

### 27 Directory of computer suppliers

You'll want to keep this updated list of corporate names, addresses, phone numbers, and sales contacts for a full range of suppliers.

MANAGEMENT

### 33 Turn-on achievers; pull-in profits

Here's a review of ways to deploy human capital to improve productivity and profitability.

CONVENTION REPORT

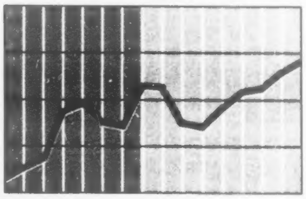
### 39 T.I.D.C. focuses on quality

Attendees at The Industrial Distribution Convention had ample opportunity to learn the first rule of distribution: Quality counts!

MANAGEMENT

**17 Inside Distribution**

**51 Business Report**



Home construction cooling.

**53 Supply Outlook**

**60 Clifton's View**
JIT's significance for the U.S.

SALES & MARKETING

**41 Strictly for Sales**

DISTRIBUTOR'S UPDATE

**7 Distribution Briefs**
Kennametal to buy Garrett; Torrington wins dumping case.

**9 News**
Suppliers sound off on buying groups; IMC show set.

**57 Advertisers' Index**

PROFITABLE IDEAS

**43 Product Spotlight**
Cordless power tools.

**45 New Products for Profit**

Smooth-On
EA 40 CLEAR EPOXY ADHESIVE
B
A

The latest products available from leading suppliers.

**49 Literature**

**57 Business Staff**

**58 Classified Marketplace**

← Circle No. 3

his company supports the marketing group because it provides his company with an opportunity to improve efficiency.

According to Pendleton, since ID One represents 33 distributors, it's now possible for his field sales people to make one sales call instead of 33. In addition, ID One could run national promotions, he says.

"The only validity for any change in the current system is that by working together, we can reduce costs," Pendleton notes. "What the industry needs to focus on is how the distribution process can be made more efficient. Sure we have passed off some market allowances, but only because we've been able to reduce costs."

### IS THE INDUSTRY REGROUPING?

In a presentation to the Industrial Distribution Assn. (I.D.A.) earlier this year, Kenneth G. Hardy, professor of management at the University of Western Ontario, maintained that the tendency in industry is that one buying group leads to the formation of another buying group.

While Hardy's analysis is widely accepted as the conventional wisdom and may ultimately come to pass, Jack Holloway, president of Holloway Bros. Tools, Inc. (Wilmington, DE), says he has observed a different trend.

Holloway says that instead of forming buying groups, non-ID One distributors are now doing business with non-ID One manufacturers. In fact, without naming the manufacturer, Holloway says that he and several other distributors earlier this year left an ID One manufacturer for a non-ID One supplier.

Notes Holloway, "The entire purpose of a buying group goes against the grain of the value added marketing concept of this business. I don't see why an ASMMA-type manufacturer, who has historically marketed his product on the basis of value-added features and benefits, would allow ID One or any buying group to reduce his product to a commodity. I think what you'll continue to see is a reshuffling of the marketplace."

Every manufacturer interviewed, whether they sold to ID One or not, refused comment on Holloway's contention that the marketplace is regrouping. All former ID One president Murray Miller would add on the topic is that any regrouping going on is part of the "ordinary flow of the industrial supply business."

To date, it is still unclear as to whether the industry will form additional buying groups, or if ID One will wield the power that some fear. What is clear however, is that even the most prosperous of manufacturers will have to deal with the presence of ID One. ☐

## NFPA informing distributors about standardized codes

MILWAUKEE, WI—The National Fluid Power Assn. (NFPA) has launched a campaign to inform distributors that the codes for imports and exports have been standardized.

According to Stephen Latin-Kasper, NFPA's statistical services manager, the standardization of the codes, known as "harmonization," is the result of an effort by the industrial nations to obtain a more accurate record of imports and exports. The codes standardized include The Tariff Schedule of the United States Annotated (imports) and Schedule B (exports), he explained.

"For years, we really didn't have a handle on what was coming in or going out of the U.S., and the same held true for the other industrial nations," noted Latin-Kasper. "This move should give us a better grip on our data."

Latin-Kasper said that under the new system, the first six digits of each 10-digit code will be identical throughout the world for both imports and exports. The new system went into effect in the U.S. Jan. 1, 1989 as part of the Trade Bill of 1988 signed by former President Reagan, he noted.

Said Latin-Kasper, "The point for distributors that do importing and exporting, is that these are the codes they should be using to fill out their paperwork. Our informal polling found that most distributors did not know about the changes."

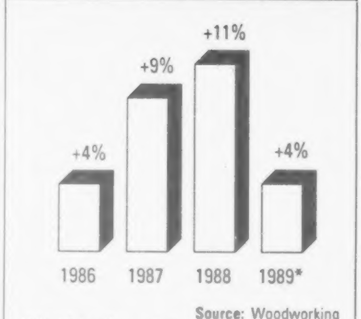
For more information call NPFA at (414) 778-3344. ☐

## Woodworking sales continue 4th year of growth

PONTE VERDE, FL—The nation's distributors of industrial woodworking machinery and sawmill equipment are projecting a 4% increase in sales for the first 6 months of 1989 over the same period last year.

According to R. Franklin Brown, Jr., the executive vice president of the 100-member Woodworking-Machinery Distributors' Assn. (WMDA), this increase follows three years of steady growth (see chart).

**WOODWORKING DISTRIBUTOR SALES**
**(annual % increase)**



* First 6 months

**Source:** Woodworking Machinery Distributors Assn.

News of continued rising sales greeted the distributor group as they began their annual joint meeting with members of the Wood Machinery Manufacturers of America. Kathleen Byrnes of the Pennsylvania-based distributorship Richard T. Byrnes Co., credits strong sales on particularly strong milling activity in the Pacific Northwest and high productivity levels among furniture manufacturers in the Carolina's.

Byrnes, who recently completed a two-year term as WMDA's president, said that a "reasonable" housing and cabinet remodeling market has contributed to the industry's strength. However, according to Cahners Economics, after six strong years of robust activity, furniture markets are now likely to soften.

During 1988, production of residential furnishings increased 4.2% and commercial furniture shipments grew 6.3%. In 1989, sales of interior furnishings are expected to settle at around 1% real growth, while residential remodeling will experience another good year with spending levels up 4.4% over 1988.

Robust distributor sales have been matched, and in some cases surpassed, by increased sales among cutting tool manufacturers selling to woodworking markets. Said Fred Garmes of Vermont American's DML Div., "We're looking at first quarter sales of 12-to-15% higher than last year's numbers, and we'll probably finish 1989 that way."

Calling the furniture market somewhat "flat," Steve O'Brien, president of Onsrud Cutter Manufacturing Co., nonetheless proclaimed both 1988 and the first quarter of 1989 as his company's "best ever." O'Brien said that the need for closer tolerances in machining woods and other non-ferrous materials has ideally situated his company's line of fixed routing tools used in CNC machining.

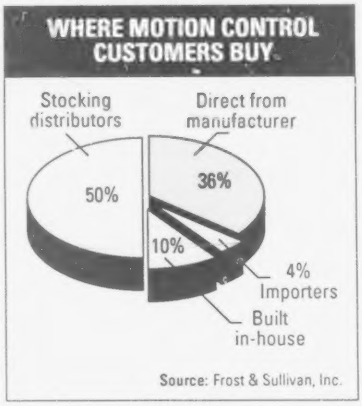
The Illinois-based manufacturer said that near net manufacturing techniques and the auto industry's move away from metals has ultimately benefitted Onsrud as well as its distributors. "Woodworking machinery distributors are no longer tied just to furniture markets and mobile homes," said O'Brien. "Today there are opportunities in aircraft manufacturing, circuit boards, plastics and composites. That's one of the reasons we're doing so well." ☐

# IMC show set for this November

CHICAGO, IL—"Motion Control Solutions Through Converging Technologies" is the theme of the 1st Industrial Motion Control Show (IMC) to be held later this year at Chicago's McCormick Place.

Scheduled for Nov. 13-15, IMC features several leading industry authorities, who will explain how the convergence of the three major technologies—electrical/electronic, mechanical and fluid power—will enhance manufacturing productivity during the 1990s.

According to IMC Show Manager Don Berey, the 3-day conference will consist of technical sessions, issues-oriented seminars and panel discussions that will explain how the three technologies interface on the factory floor. An adjoining exhibit area displaying more than 200 motion control product categories will complement the program, he noted.



WHERE MOTION CONTROL CUSTOMERS BUY

Source: Frost & Sullivan, Inc.

*50% of industrial end users purchase motion control products through distributors, says a Frost & Sullivan survey of 300 respondents.*

"The IMC is the only industry event that provides plant and design engineers, OEMs, distributors, maintenance specialists, and other end users with an in-depth understanding of how all three motion control technolgies can more effectively interface," Berey said.

In keeping with this objective, Berey noted that the first group of conference sessions will focus on the "Basics of Motion Control." This will include sessions on software driven motion control, the mechanics of motion for the non-mechanical engineer, fluid power for the non-fluid power engineer, basic solid-state electronics for the non-electronic engineer, and fundamentals of programmable logic controllers.

The other two major program tracks include sessions entitled "Selecting the Best Motion Control System for your Specific Application" and "Beyond the Basics." A series of case histories on how various companies have successfully combined the technologies will also be featured at the conference.

For distributors pondering whether they should attend the November show, a recent report published by market research group Frost & Sullivan, Inc. offers some interesting insight.

The report said that as U.S. industries switch to electrical/electronic systems from the traditional pneumatic and hydraulic servo systems, motion control sales are expected to reach $551 million by 1992, up from $489 million in 1988. In addition, Dr. William Hahn, one of the analysts who researched the report, noted that 50% of the end users surveyed said that they purchased motion control products through industrial distributors (see chart).

For more information on the IMC, call either National Expositions Co. at (212) 391-9111 or the show's sponsor, the Power Transmission Distributors Assn. at (312) 825-2000. For more information on the Frost and Sullivan report, contact Susan Call at (212) 233-1080. ☐

# B&D reaps rewards from national TV ads

HUNT VALLEY, MD-Power tool giant Black & Decker (B&D) is starting to reap rewards from the industrial grade ads it has been running on nationally televised sports programs.

Scott Hennessy, a director of marketing for B&D's U.S. Power Tools Group, said that the ad campaign has dramatically improved brand preference among end users. "The national ad campaign is only one component in a concerted effort by B&D to improve its image among professional users," Hennessy said.

According to Hennessy, the ads, which ran recently during the NCAA Basketball Tournament and the Indianapolis 500, were targeted at males between the ages of 25 and 54. He said B&D selected sports shows based on market research which found that a significant portion of professional users are male, watch sports regularly and are in that 25 to 54 age category. The ad campaign kicked off during the 1987

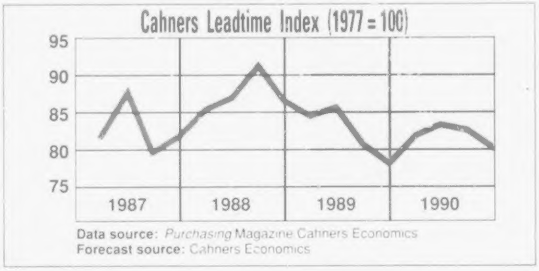
# SUPPLY OUTLOOK

BY KRIS BLEDOWSKI

# Metalworking Industry Slows

*While demand softens, inflation pushes costs up*

Output of manufactured industrial products has been showing signs of levelling off. After uninterrupted growth through 1988, industrial production of tools and hardware declined for the second month in a row in February, falling 0.9% since the beginning of the year. Structural metal products registered an 0.6% slide in February while power transmission distribution sales went down 5.0% the same month. We forecast growth of fabricated metals output to slow from 8.9% in 1988 to 2.5% this year before rebounding 7.6% in 1990.

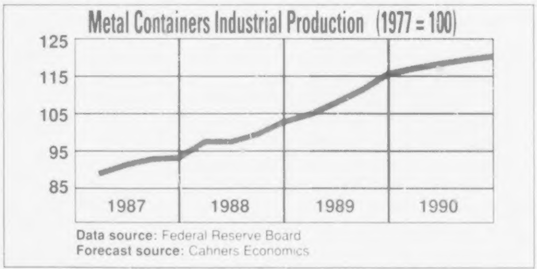


**Data source:** *Purchasing* Magazine Cahners Economics
**Forecast source:** Cahners Economics

Other supply indicators appear more cloudy. Capacity utilization rates for metals went down from 84.8% in January to 84.4% in March. At the same time, leadtimes did not show any strong pattern. Cahners exclusive leadtime index for 125 industrial materials declined 2.9% since the beginning of the year. Leads for fasteners and valves have been holding steady during the first four months, while those for nonfriction bearings have declined.

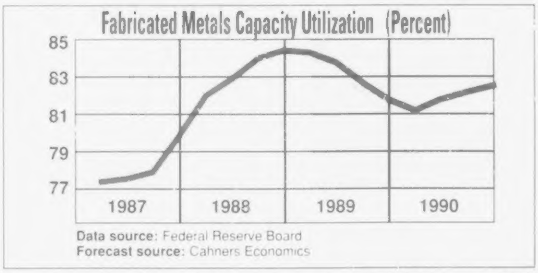
Prices of industrial materials shot up in the first quarter. The producer price index for fabricated metals rose 8.7% on an annual basis, much higher than at any time during the current expansion. Prices for mechanical power transmission equipment went up at an annual rate of 4.3%, somewhat lower than the overall index for finished goods.

These mixed supply indicators show an economy losing momentum while at the same time experiencing inflationary pressures from higher materials and labor costs. While the soft demand side is likely to continue for the rest of the year, higher inflation and interest rates can aggravate an expected mild slowdown. Low growth and high inflation, often termed 'stagflation', could persist for about 12 months before the economy picks up in 1990. ☐



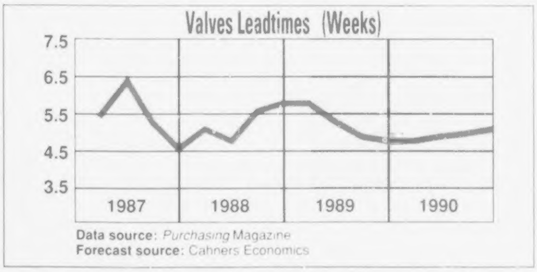
**Data source:** Federal Reserve Board
**Forecast source:** Cahners Economics

**The metal containers sector will not experience a major slowdown during 1989, registering growth of 10.6%.**



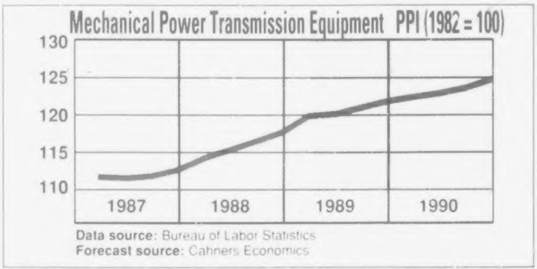
**Data source:** Federal Reserve Board
**Forecast source:** Cahners Economics

**Capacity utilization of fabricated metals will fall to about 82% by the end of 1989 and stay at that level through 1990.**



**Data source:** *Purchasing* Magazine
**Forecast source:** Cahners Economics

**Look for a substantial shortening of leads for valves, from an average of 5.7 weeks in 1988 to 5.2 weeks in 1989.**



**Data source:** Bureau of Labor Statistics
**Forecast source:** Cahners Economics

**Prices of power transmission equipment drifted upward 1.8% between December and March, lower than overall inflation.**

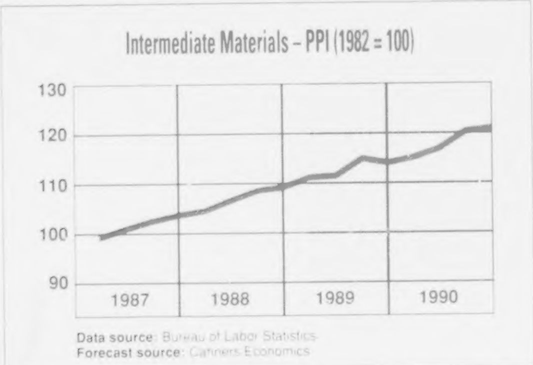
← Circle No. 34

# SUPPLY OUTLOOK

## Producer Inflation Accelerates

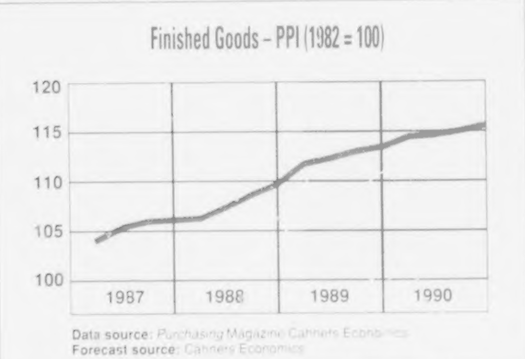
The producer price index for intermediate materials moved up 0.7% in March, continuing a recent trend of large monthly increases. Higher food and energy prices accounted for much of the advance.

Prices for durable and nondurable manufacturing materials behaved in different ways in March than in February. The nondurable manufacturing materials index decelerated from advances of 0.7% and 0.8% in January and February to a 0.2% rise in March. In contrast, prices for durable goods, which had slowed to an increase of 0.2% in February, registered a March surge of 1.1%.



Data source: Bureau of Labor Statistics
Forecast source: Cahners Economics

**After rising 5.5% in 1988, intermediate materials prices will post a similar jump this year and 4.9% in 1990.**



Data source: *Purchasing* Magazine Cahners Economics
Forecast source: Cahners Economics

**Expect producer inflation to average 4.2% this year, sharply higher than last year's 2.5% rate.**

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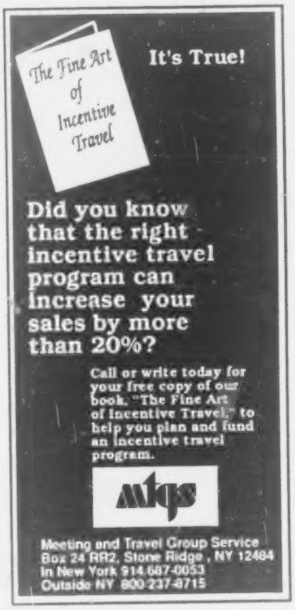
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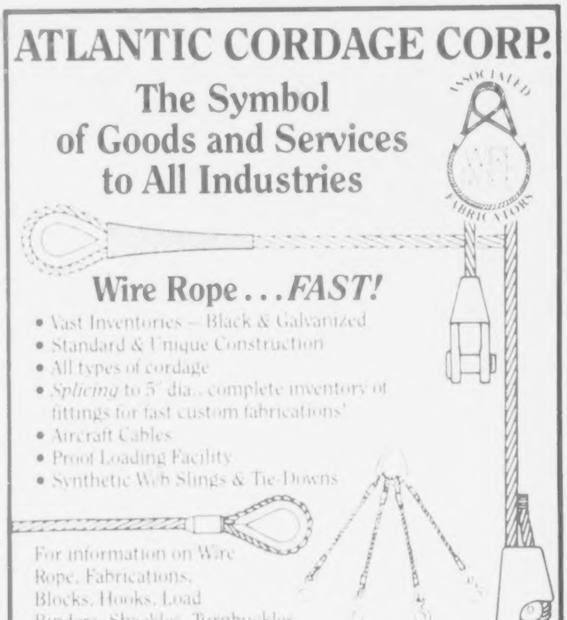
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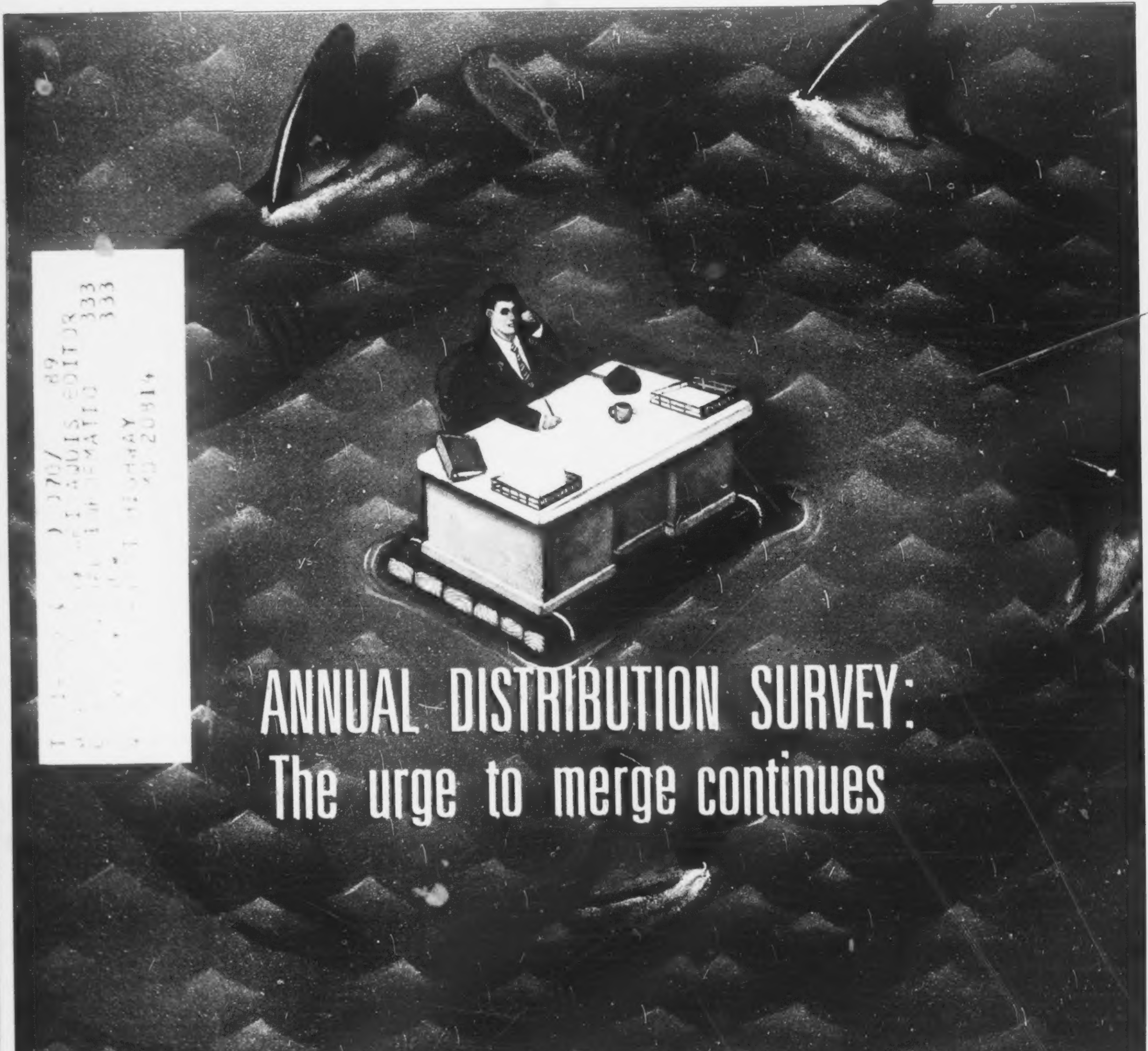
# Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

SPECIAL:

## Facility Maintenance Buyer's Guide



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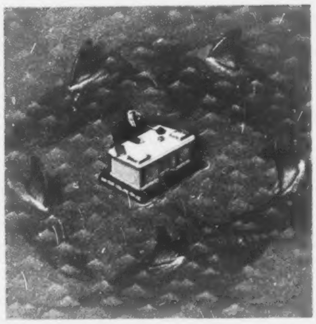
## ANNUAL DISTRIBUTION SURVEY:

## The urge to merge continues

Industrial Distribution
THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 78, NO. 7
JULY 1989
A CAHNERS PUBLICATION



Cover art by Curt Doty

EXCLUSIVE SURVEY

### 31 The urge to merge continues

Our exclusive, *43rd Annual Survey of Distributor Operations* reveals that in an environment of increasing sales and winnowing margins, acquisition activity abounds.

COMPUTING TECHNOLOGY

### 47 Disk-connect branches for central control

Geary Pacific has found a way to let its headquarters operation do the paperwork, thereby freeing the firm's nine branches to work the customers.

SPECIAL

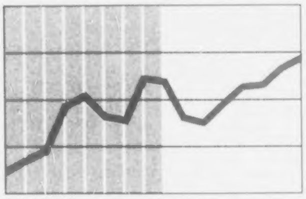
### 51 BUYER'S GUIDE: Facility maintenance supplies

Here's a complete listing of manufacturers who provide the full range of maintenance supplies that your customers need. Use the Reader Service Card to get the latest details .

MANAGEMENT

**29 Inside Distribution**

**79 Business Report**



Fluid power spurts ahead.

**83 Supply Outlook**

**90 Clifton's View**
Winds of change foretell a global market.

SALES & MARKETING

**55 Strictly for Sales**
How to deal with a buyer who hems & haws but doesn't buy.

DISTRIBUTOR'S UPDATE

**5 Distribution Briefs**
Manufacturers plan to bar-code; S/36 to AS/400 conversion service.

**7 News**
Here comes another buying group; reaction to bearings ruling; Tommy Grant wins an award.

**86 Advertisers' Index**

PROFITABLE IDEAS

**61 Product Spotlight**
Racks and storage shelves.

**65 New Products for Profit**

The latest products available from leading suppliers.

**75 Literature**

**87 Business Staff**

**88 Classified Marketplace**

ID's Exclusive
Annual Survey

### Amid rising sales and slender margins

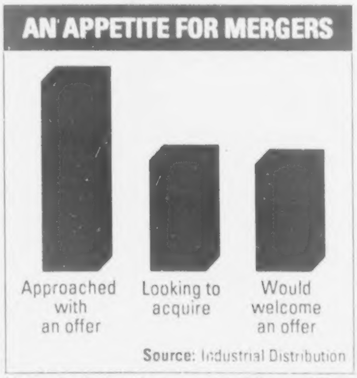
# The Urge to Merge Continues

**By John G.F. Bonnanzio,**
**Associate Editor**

During 1988 the sun shined brightly upon the faces of industrial distributors. In results garnered from *ID's 43rd Annual Survey of Distributor Operations*, the nation's suppliers of MRO products enjoyed 1988. Rallied by rising exports, manufacturing's 6% growth in production was enough to help distributors drive home a 9% increase in sales. Better yet, improvements were also made to the industry's bottom line.

Nonetheless, industry-wide consolidation seems to have accelerated, spurred in part by concerns that profit margins will become increasingly difficult to maintain in the years ahead. But for the time, distributors held most operating expenses steady in 1988, as return on investment climbed from 10 to 11%.

AN APPETITE FOR MERGERS



Source: Industrial Distribution

**Half of all distributors with $5+ million in sales were baited for a buyout, feeding the acquisition frenzy.**

Although distribution's 1988 selling season was helped by manufacturing's performance, some businesses barely made it to the batter's box. Depending upon factors such as geography, product mix and sales size, the *Survey* demonstrates that distributors should focus on improving productivity rather than relying on potentially revitalized smokestack industries for enhancing profitability.

With more than 400 distributors supplying statistical data, evidence profiles an industry in transition. Mergers and acquisitions, regional shifts in manufacturing, and profitability by product specialty illustrate that bigger is generally better, automation of management routines is a must, and perhaps most threatening, consolidation is a reality that will not soon disappear.

# First. the good news

The most important measure in business, suggest accountants, is not how much you earn, but rather how much you keep. During 1988, industrial distributors got to keep more than they did the year before.

With median sales of $1.9 million in 1987 (see "Medians & averages" on p. ), distributors pushed up performance 8.8% to $2.1 million. This increase closely matched the Industrial Distribution Assn's. National Sales Index which climbed 10%; the American Supply & Machinery Manufacturers' Assn's. New Order Index (+7.4%.); nonelectrical machinery production (+12%), and; metalworking machinery production (+10%).

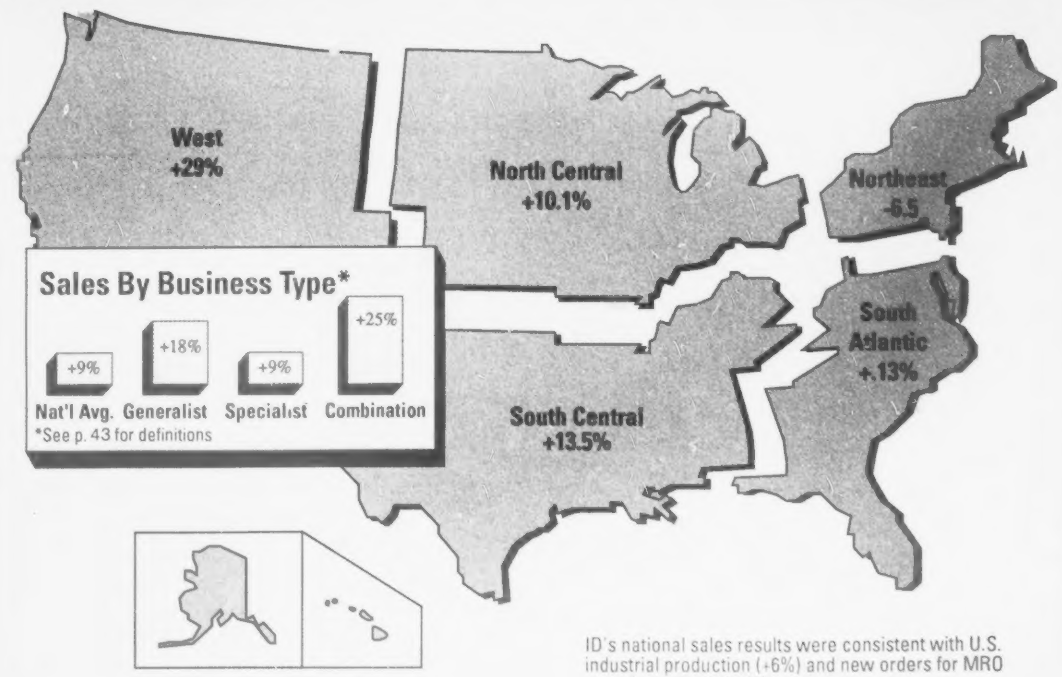
On a state by state basis, distributor sales were far more inconsistent. For example, while median sales increased nearly 30% in the West (the nation's strongest region), the Northeast lost ground with declining sales of 6.5%. But geography was no guarantee of success. While California and Washington enjoyed the fruits of a soaring aerospace industry, sales for one Golden State distributor disintegrated by 75%, while a handful of suppliers in New York reported sales surpassing the 50% mark.

Another big winner was the South Central region with every state except Texas finishing 1988 ahead. As OPEC prices stiffened, rig counts inched upward in Louisiana, Oklahoma and the Gulf. This, combined with greater auto-related manufacturing in Kentucky and Tennessee helped to send sales in the region up 13.5% for the year.

Although rain failed to visit many mid-western farmers during 1988, unexpectedly, higher sales showered distributors in Kansas, Iowa and Nebraska. In the Great Lakes states, distributors expected a strong year of sales, and seemed to get it. Overall, the North Central Region finished 1988 ahead of 1987 by 10.1%. With its pervasive manufacturing base, the Midwest has probably been the country's greatest beneficiary of the weakened dollar abroad and surging export trade at home. Since 1985, personal spending in the region has caught up with the rest of the nation—further evidence that for the time being, manufacturing is back.

Perhaps the biggest disappointment in this year's *Survey* (as well as the largest surprise), were results from the South Atlantic region. Although the Dept. of Commerce predicts that the South's population and employment growth will outpace the rest of the nation by 50% through the next 10 years, its trickle-down effect seems to have temporarily stalled sales of MRO products. This is not to suggest that the region is "recessed." Far from it. On the heels of a banner year in 1987 (sales were up over 30%), the South Atlantic may simply have hit its stride, with steadier growth likely in the future.

**1988 SALES BY REGION**
**(% change 1988/87)**



ID's national sales results were consistent with U.S. industrial production (+6%) and new orders for MRO manufacturers (+7.4%).

Source: Industrial Distribution

# Return on net worth improves

How profitable is industrial distribution? That's like asking "how tall is the average person?" Nonetheless, ***ID*** has pegged distribution's median return on net worth (ROI) at 11% for 1988, up 1% from a year earlier. This means half of all distributors participating in the *Survey* enjoyed a ROI above 11%, and the other half below. In addition, profitability varied widely depending on product line, geography and sales size (see chart).

In comparing general line houses with specialty distributors and combination houses (those selling to non-industrial markets), the latter group appeared most profitable with a 12% ROI. Specialty distributors managed to outperform the overall market with 11.5%, and generalists pulled the average down with only 10%. Keeping in mind that these figures are medians, they probably represent a performance that is higher than the "average" supply house. What's most important, however, is its trend line.

**FINANCIAL SUMMARY ***
**(dollars in thousands)**

| | 1987 | 1988 |
|---|---|---|
| Net sales | $1,930 | $2,100 |
| Cost of goods sold (73% of net sales) | 1,409 | 1,533 |
| Gross margin | 521 | 567 |
| Selling expenses (23% of net sales) | 444 | 483 |
| Net profit (before tax, 4%) | 77 | 84 |
| Return on investment (% of net worth) | 10 | 11 |

*Figures used are medians (see p. 43 )

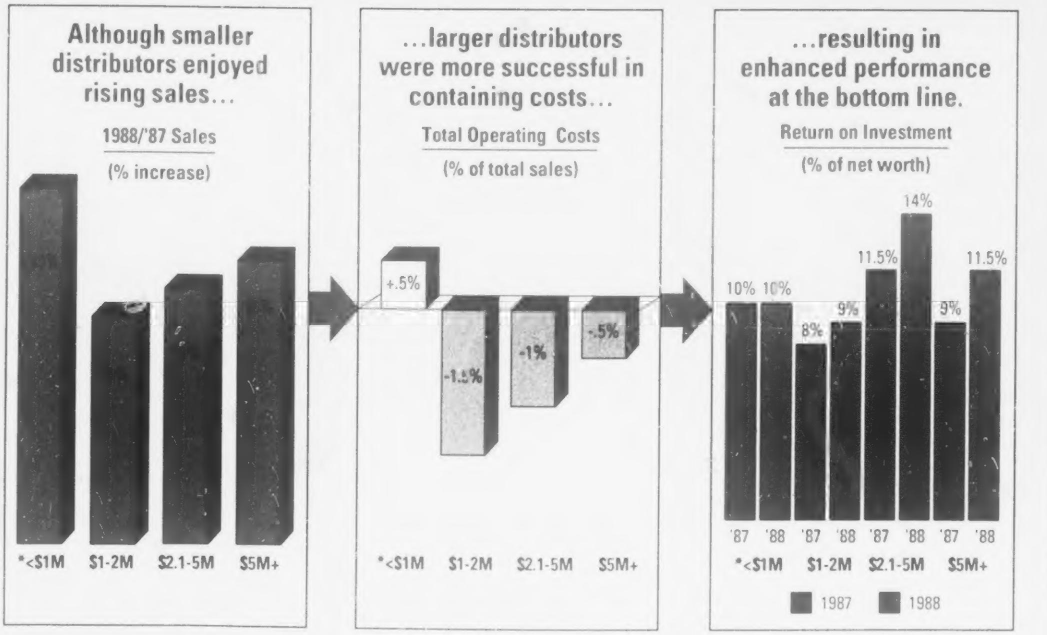
**Source:** Industrial Distribution

On rising sales of 8.8% in 1988, distribution's cost of goods sold remained at 73% of total sales, while gross profit (27%), total operating expenses (23%), and net profit before tax (4%), were all unchanged from a year earlier. Based on these returns, ***ID*** estimates that the "typical" *Survey* respondent increased gross margins from $521,000 in 1987 to $567,000 in 1988 (see box). Because net profit before tax was unchanged at 4% from 1987 to 1988 and ROI increased from 10 to 11%, the data suggests that distributors used their assets more effectively during 1988 to improve overall profits.

Another assumption to make is that asset turnover may have improved in 1988 as well as the industry's financial leverage. By reducing such liabilities as bad debt and interest payments, a company can still improve ROI even if gross margins as a percent of total sales does not increase.

Interestingly, while distributors with sales below $1 million increased their sales an extraordinary 25%, improvement to ROI remained elusive, stalling at 10%, perhaps as a result of accelerated borrowing to build inventories. On the other hand, because distributors with higher sales managed to decrease their total operating costs (as a percent of sales), ROI improved dramatically.

## IS BIGGER REALLY BETTER?



**Although smaller distributors enjoyed rising sales...**

**...larger distributors were more successful in containing costs...**

**...resulting in enhanced performance at the bottom line.**

*Sales dollars in millions

**Source:** Industrial Distribution

# What worries industrial distributors?

Mergers and acquisitions are not likely to abate any time soon because of efficiencies in scale and perceptions of future profits. During 1987, one distributor in three said it was approached with an acquisition offer. In 1988, that figure climbed to 37%, with general liners being approached the most (41%), followed by combination houses (36%) and specialty distributors (35%).

But is this any guarantee that the merger mania will continue? Without any promises, the answer is probably "yes." With 30% of all distributors claiming that they would welcome an acquisition offer, and 25% of companies with sales of $5 million-plus "actively seeking" another distributor, the acquisition chemistry appears to be percolating nicely.

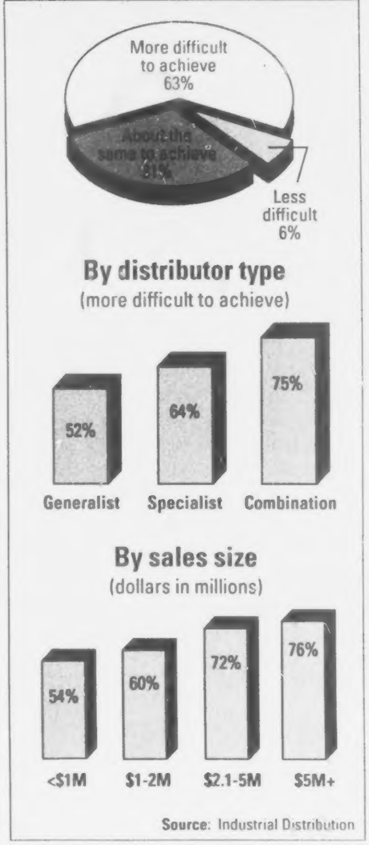
Behind this urge to merge seems to be the growing expectation among many industrial supply houses, that profit margins are likely to narrow in the future. When asked what was ahead for distribution in the coming 5 years, 63% of all distributors predict that profits will be more difficult to achieve. For example, while 40% of general liners "would welcome" an acquisition offer, half believe that margins will get tougher in years ahead.

There is also an apparent relationship between a distributor's sales size, its view of profits, and its interest in acquiring other businesses (see chart). Although 36% of distributors with fewer than $1 million in sales are interested in being acquired, 54% think margins will be more difficult down the road, and only 22% were subsequently approached with a buyout.

Conversely, distributors with $5+ million in sales view distribution with a more pessimistic eye, but not so dour as to get out of the business. Regardless that 76% of this group believes that margins will become more difficult to achieve, 25% are looking for an acquisition, and a similar number would welcome an offer. Why? As much as the larger distributor is bothered by future profits, the potential relationship between size and profitability is clearly understood. Therefore, the picture that takes shape looks like this:

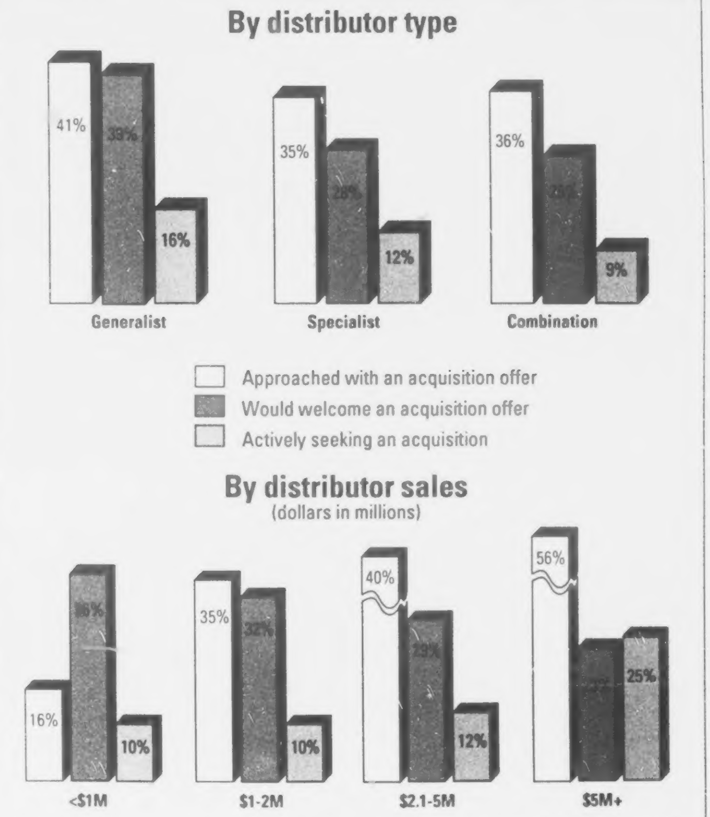
The smaller the distributor, its likelihood of being approached in an acquisition diminishes, and thus its chances of being acquired. The larger the distributor, just the opposite is true. Therefore, based on these two facts, one can only conclude that large distributors will increasingly be approached, and subsequently acquired, by other large distributors.

**DURING THE NEXT 5 YEARS, PROFIT MARGINS WILL BECOME...**



Source: Industrial Distribution

**ACQUISITION ACTIVITY IN 1988**



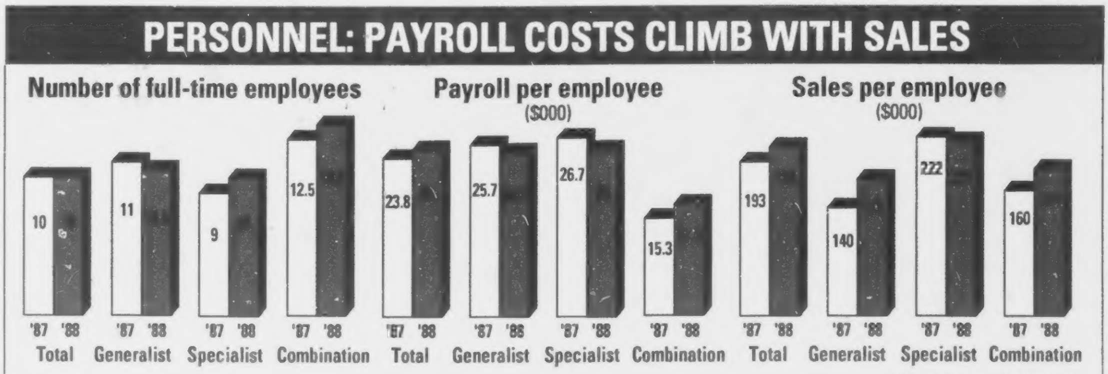
Source: Industrial Distribution

## PERSONNEL

# Payroll costs climb with sales

When sales for industrial distributors begin to rise, does that mean a hiring binge is under foot? Wisely, the answer is no. Although national sales increased nearly 9% in 1988, overall employment figures remained unchanged, which undoubtedly helped the industry's profits. General liners, in particular, seemed to have learned this lesson well.

In 1988, generalists increased their sales over 1987 by 4%, while boosting their number of full-time employees from 10.5 to 11. As a result, sales per employee dropped, and ROI fell accordingly. Last year, on rising sales of nearly 18%, generalists worked harder by trimming payroll thereby boosting sales per employee from $140,000 to $173,000. The happy result was lower operating expenses and a return on investment rising from 9.5 to 10% for the first time in years.



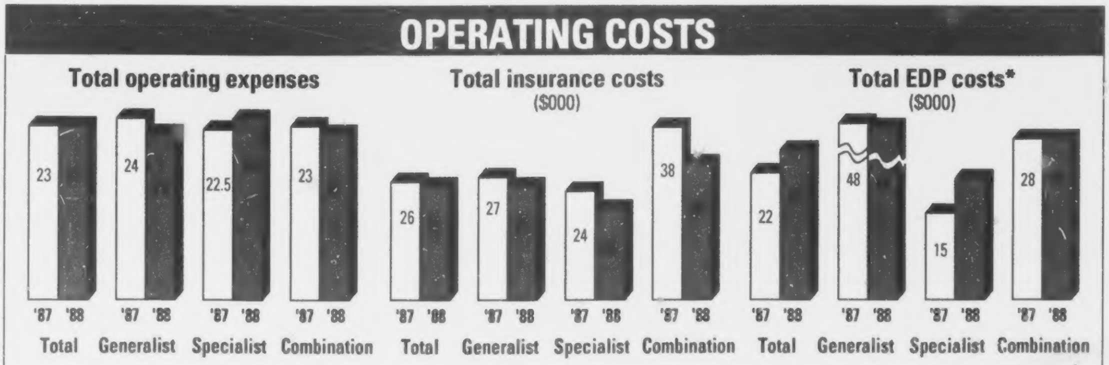
Source: Industrial Distribution

## OPERATING COSTS

# Still stuck in high gear

Distributors held operating expenses in place last year, but there is still plenty of room for improvement. Because industrial distribution is such a low margin business, any profit to be squeezed will come from lowering either warehousing costs, payroll, EDP or even insurance. According to INDUSTRIAL DISTRIBUTION's estimates, on an annualized basis, many distributors don't see a profit until the final 5 weeks of a year. As a result, all aspects of a distributor's business must be run cost effectively; there is far too little room for excess.

In 1987 and 1988, operating expenses remained at 23% of total sales. Distributors can be commended for this performance in light of the inflationary effects of a 3.2% increase in the consumer price index for goods and services. One surprise in this year's *Survey* was the marginal reduction in overall insurance costs from $26,000 down to $25,000. In addition, product liability insurance also dropped from $6,000 yearly to about $5,000, a rather substantial and surprising decline of nearly 17%. On the other hand, EDP costs rose by 18% to $26,000 per year, most of which is attributable to slightly higher salary and equipment costs. (See "Computers" on p.41 for a summary.)



*Includes salaries, equipment, materials & software

Source: Industrial Distribution

# Getting the bills paid on time

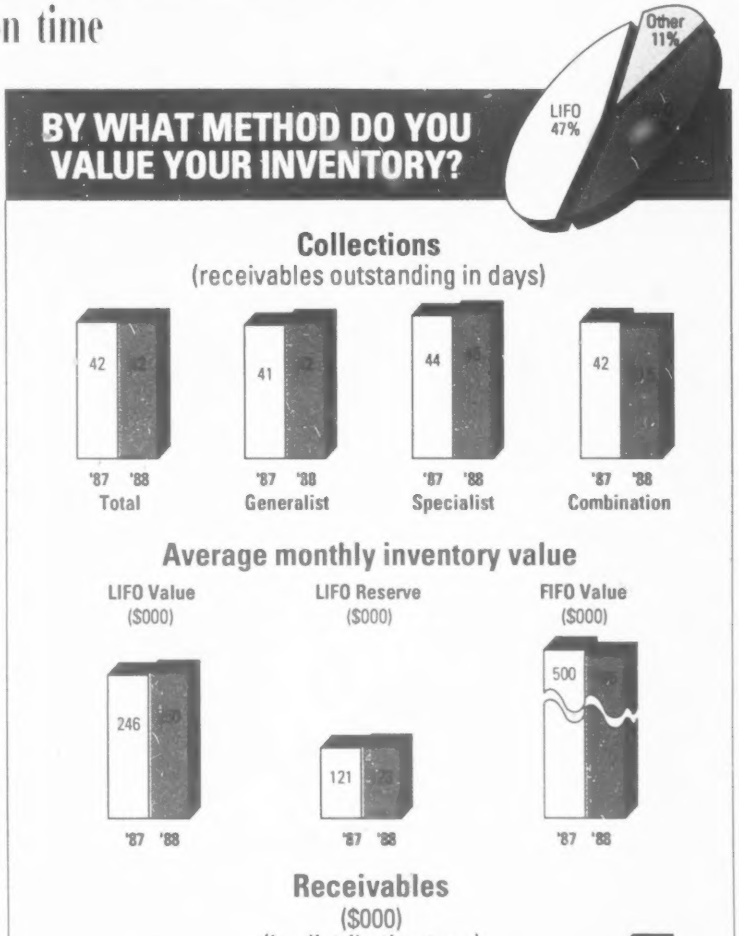
When it comes to choosing a method for determining inventory value, distributors are about evenly split between LIFO (last-in-first-out) and FIFO (first-in-first-out). Either way, distributors reacted to increased sales during 1988 by stocking-up, but by no means went overboard. Using the LIFO Value method, inventories climbed a modest 1.6% while LIFO Reserves moved similarly. This is a good indication that distributors have learned to manage their inventories better, perhaps as a result of computers (see p. 41).

Unfortunately, the success in managing the warehouse was not matched in the accounts receivable department. The average number of days it takes an industrial distributor to collect payment has remained at about 42 days for the past 3 years. With the prime rate averaging over 9% for 1988, distributors are effectively discounting every invoice mailed by a full percent. In keeping with previous *Survey* results, general liners continued to have an easier time closing accounts than specialists, although combination houses fared better than both.

> The larger the business, the larger the open receivables.

On the receivables front, distributors lost some ground. With rising sales of 8.8% industry-wide, one might reasonably assume a corresponding increase in open receivables. However, the dollar value between 1987 and 1988 increased 13% from $201,000 to $227,000. Only generalists managed to contain this expense (−3.2%), while specialists watched receivables rise 18% and combination houses by 6.9%.

When reviewing receivables by company size, naturally enough, the larger the business, the larger the receivables. Distributors with sales of under $1 million watched receivables increase about 12%, as did distributors with sales between $2.1 and $5 million. On the high side, distributors in the $1 to $2 million and the $5+ million categories, each saw receivables climb 20%.



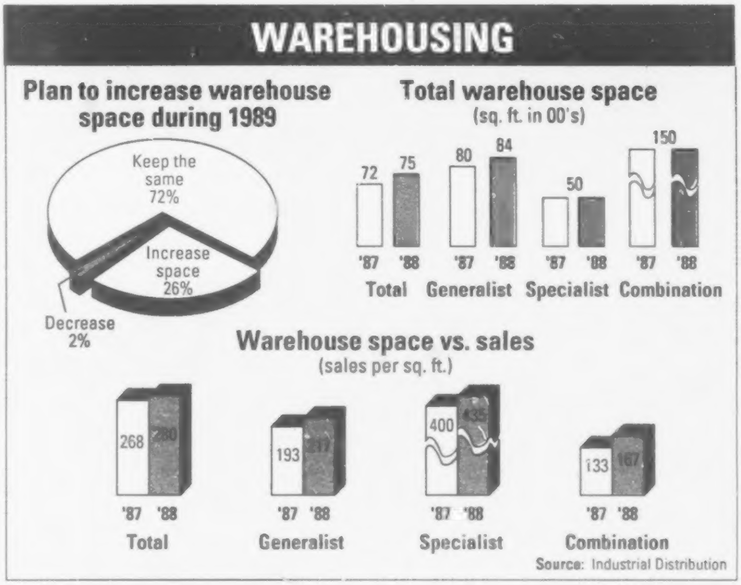
Source: Industrial Distribution

### WAREHOUSING

## Increasing sales by the foot

By and large, distributors feel that their companies are operating a sufficient amount of warehouse space, with only 26% indicating plans to increase capacity this year. Across the board, however, the average amount of warehouse space either owned, rented or leased was increased to 7,500 sq ft. From a statistical standpoint, only generalists added an average of 400 sq ft, or roughly 5%. Both specialists and combination houses appear content with their present accommodations.

When measuring warehouse space against annual sales, all categories of distributors, improved their efficiencies. The most dramatic increase was registered by combination houses (+25%), followed by generalists (+12%), and specialists (8.8%). The *Survey* also revealed that generalists operate an average of 2 stocking locations, while specialists have 3, and combination houses 3.5.



Source: Industrial Distribution

### COMPUTERS

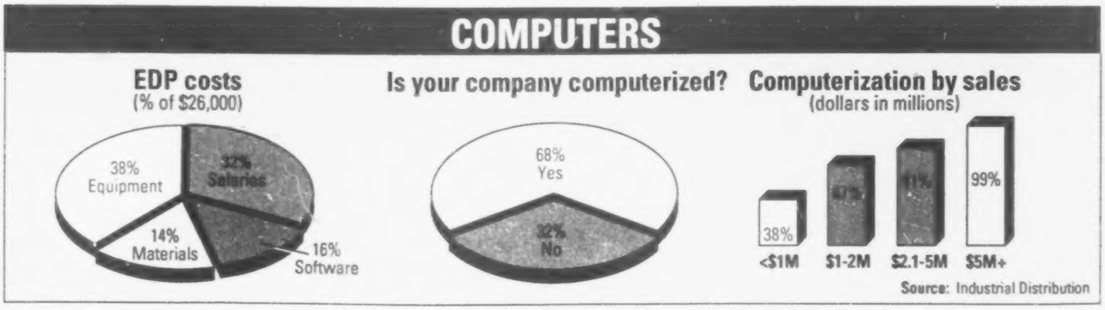
## EDP costs rise, but so do profits

With nearly seven distributors in ten computerized, there are significant differences between those who are willing to invest in the technology, and those who are not. Among distributor types, computerization is equally prevalent among generalists, specialists and combination houses. However, the relationship between distributor sales size and computerization is dramatic.

While 38% of supply houses with sales below $1 million have computers installed, 99% of those with sales in excess of $5 million are similarly equipped. And how are these computers being utilized? For one thing, nearly 75% have linked their branches together "on-time, real time," meaning that multiple branches are continuously aware of what another branch has on its shelves. However, only 8% of distributors have implemented bar coding, 3% for internal inventory purposes, and 5% for shipments.

But with EDP costs rising 20% in 1988 to $26,000, is the investment really worth it? If one looks solely at the ROI last year for computerized versus non-computerized businesses, the answer was no; one year earlier the answer was yes. Why the inconsistency? While the data can only compare profits for those with and without computers, it cannot disect the relationship between computerization, sales size, and profitability.

What we do know, however, is that distributors with higher sales are far more computerized than smaller businesses, and that larger supply houses are generally more profitable. Therefore, one can comfortably say that computerized distributors outperform those who are not. Further, given the distributor's need to add more profits in an ever-competitive business, the industrial distributor who invests wisely in automation may one day find himself on the winning side of a merger or acquisition.



Source: Industrial Distribution

# Important Facts About the Survey

## Methodology

A 4-pg. questionnaire was mailed to nearly 10,000 of ***ID***'s readers at headquarter locations in March of this year. The *Survey* was delivered to general line distributors (those who indicate that no one product category contributes 50% or more to total sales); specialists (50% or more of total sales comes from a one major product category) and; combination houses (distributors selling product to industrial and non-industrial markets such as the auto aftermarket, wholesale plumbing, heating and electric.)

A total of 434 responses were received from throughout the U.S., including Alaska and Hawaii. None were mailed to Canada or Puerto Rico. Statistical assistance was provided by Cahners Research, which has put the *Survey's* margin of error at ±5%.

## Medians & averages

Unless otherwise noted, all percentages expressed in this report are medians which, in their simplest form, define the midpoint in a statistical range. In other words, half of any group will be larger than the median, and half will be smaller than the median. The reason for using a median as opposed to an average is that medians are more representative of a group and are less distorted by extremes.

When comparing your company's performance with those of the *Survey's* respondents, a distributor should be concerned with how often his or her business is below or above a median. Continously operating below the midpoint on certain key financial measures could signal underperformance against the industry norm. The chart below should help to make such a determination.

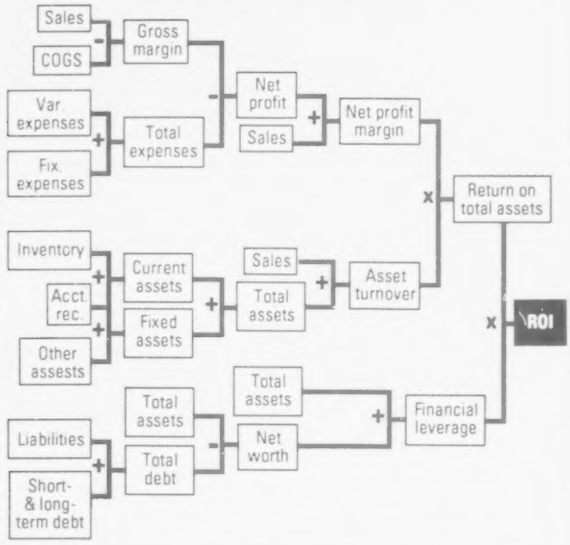
## How to order the Survey

Although every effort has been made to provide ***ID***'s readers with the *Survey's* most important findings, only a small fraction of the total information can be provided in magazine format. In fact, the *43rd Annual Survey of Distributor Operations* is actually a report containing about 300 pages of original statistics on general line, specialty and combination distributors.

Comparisons of distributor performance by type of firm, annual sales size and five geographic regions are included. The *Survey* is the most trusted and complete reference of its kind in the industry. A single copy is $195 prepaid, $250 if billed. Contact: Diane Mercurio, *Industrial Distribution*, 275 Washington St., Newton, MA 01258, 617-558-4346. Customized reports are also available.

## RATE YOUR COMPANY'S PERFORMANCE

### How to calculate ROI


Sales
COGS
Gross margin
Var. expenses
Fix. expenses
Total expenses
Net profit
Sales
Net profit margin
Return on total assets
Inventory
Acct. rec.
Other assests
Current assets
Fixed assets
Sales
Total assets
Asset turnover
ROI
Liabilities
Short- & long-term debt
Total assets
Total debt
Total assets
Net worth
Financial leverage
-
+
x

### Comparing ledger sheets

| | Generalist | Specialist | Comb. House | Your figures |
|---|---|---|---|---|
| **Total sales** ($ millions) | 1.8 | 2.2 | 2.5 | ____ |
| ***COGS** | 73% | 72% | 72% | ____ |
| ***Gross profit** | 27 | 28 | 28 | ____ |
| ***Total operating expenses** | 23 | 24 | 22 | ____ |
| ***Net profit before tax** | 4 | 4 | 6 | ____ |
| ***Net profit after tax** | 3 | 3 | 2 | ____ |
| **ROI** | 11% | 11.5% | 12% | ____ |
| **No. of employees** | 10.5 | 10 | 13.5 | ____ |
| **Sales per employee** ($ thousands) | 171 | 220 | 185 | ____ |

*% of total sales

**Source:** Industrial Distribution

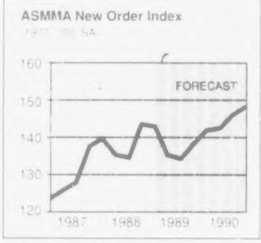
Are you in need of improving your company's bottom line? See ***ID***'s May 1988 issue: *ROI—Buy wise, sell smart.* If you would like a copy of that article, use **Circle No. 560.**

# BUSINESS REPORT

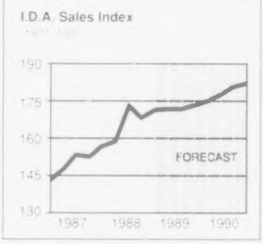
BY KRIS BLEDOWSKI

# Fluid Power Sales Surge

*Both pneumatics and hydraulics strong*



Data source: ASMMA
Forecast source: Cahners Economics



Data source: I.D.A.
Forecast source: Cahners Economics

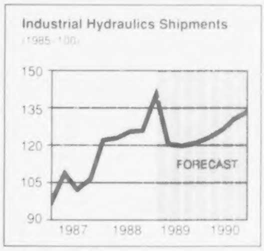
Both orders and shipments of hydraulic and pneumatic fluid power skyrocketed in the first quarter of this year. Unlike the export-led boom of 1988, this upswing is domestically based. While demand should slow in the second half of 1989, business should be up at least 5% this year.

First quarter shipments of pneumatics were 12.9% above the comparative period a year ago, while hydraulics shot up 14.8%. Both industrial and mobile hydraulics grew at roughly the same rate of around 15%. The business cycle peak for fluid power, measured by the highest growth rate, occurred in the last months of 1988. While pneumatics should weaken rather quickly, falling to an average annual growth rate of 12.1% in 1989, hydraulics are expected to stay strong through the second half and finish the year with an annual growth rate of 20.9%.

What is driving this new miniboom is a continuing fast pace of business investment. Fluid power, like machine tools, is a major component in the production of capital goods. In spite of the slowing economy, investment in durable goods is still strong. On the one side, business optimism is high, on the other, companies report sizable profits. Both of these factors stimulate additions to capacity.

Prices of fluid power equipment have been rising much slower than the overall producer inflation for several years. This will come to an end soon. From an annual rate of 2.9% in 1988, inflation for fluid power equipment will soar to 5.6% this year and 5.0% in 1990. Unit labor costs will contribute only marginally to this movement, while sharply higher prices for intermediate materials like forgings, castings, and tools, as well as raw materials like steel, are bound to have a much larger impact.

Some of the inflationary pressure is also due to capacity constraints. Leadtimes for hydraulic cylinders, for example, stretched from about 4.7 weeks at the end of 1987 to about 5.5 weeks in the third quarter of 1988 and over 6 weeks by April of this year. As the backlog abates and the overall economy slows later this year, lead times will shorten to just over 5 weeks by year's end. ☐



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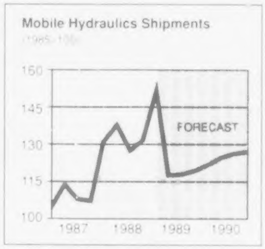

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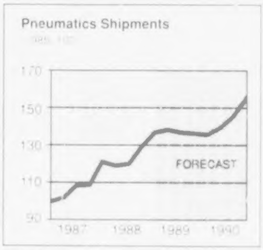
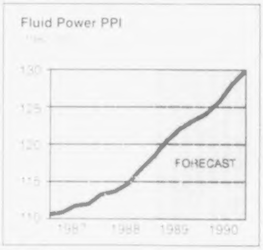


Data source: NFPA
Forecast source: Cahners Economics



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Forecast source: Cahners Economics

| | SALES | | | RECEIVABLES | INVENTORY | |
|---|---|---|---|---|---|---|
| (1977=100) | Apr. 1989 | Mar. 1989 | Apr. '89 vs Mar. '88 % change | Apr. 1989 days | Apr. 1989 % increase | Apr. 1989 % decrease |
| **TOTAL** | 207.1 | 166.7 | 24.2 | 41.3 | 4.8 | 3.2 |
| **EAST** | 184.3 | 168.0 | 9.7 | 46.1 | 3.9 | 3.6 |
| **SOUTH** | 283.7 | 203.9 | 39.1 | 39.9 | 5.0 | 5.0 |
| **CENTRAL** | 172.7 | 147.7 | 17.9 | 42.0 | 5.2 | 3.0 |
| **WEST** | 241.4 | 222.6 | 8.3 | 36.0 | 2.0 | 1.7 |

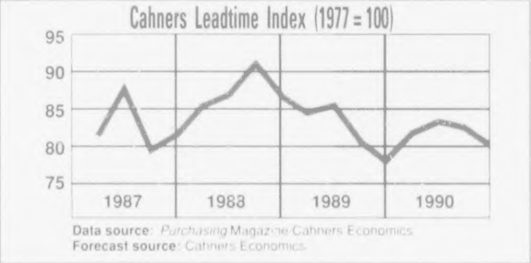
SOURCE Industrial Distribution Assn

# SUPPLY OUTLOOK

BY KRIS BLEDOWSKI

## Price rises accelerate

*But fears of hyperinflation are premature*



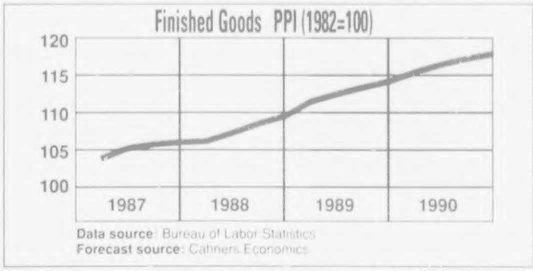
Data source: *Purchasing* Magazine-Cahners Economics
Forecast source: Cahners Economics

As recently as three years ago producer inflation was running at one to two percent per year in most finished goods categories. The aggregate finished goods producer price index (PPI) even fell 1.4% in 1986. This noninflationary growth period appears to be over. The PPI for finished goods has shot up to about 5% in the first months of 1989 and it should stay at that level till the end of the year. At the same time, the economy's brisk growth has slowed down. The noninflationary expansion of 1985-1988 was due to rigid monetary policy of the Fed (strict control of the money supply) and low energy prices. At the same time, expectations about future price increases (which can be inflation stimulants themselves) were also low.

The current runup of inflation is due to tight capacity utilization in some process industries and higher raw materials prices, primarily oil. The PPI for power transmission equipment, for example, rose from an annual rate of 2.2% in 1986 to 4.4% by April of this year. Prices for this category of equipment will be up by over 5% by the end of the year. Likewise, prices for material handling equipment shot up from 0.7% in 1986 to 3.6% in April, while inflation for metalworking machinery advanced from 1.8% to 3.7%, respectively.

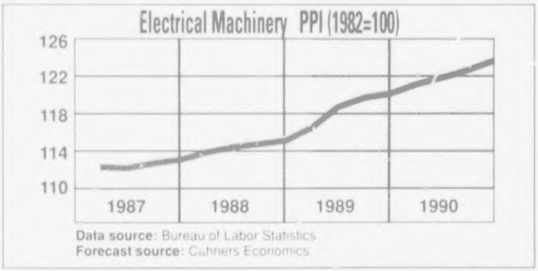
Is the inflation rate likely to soar out of control? Probably not. The Fed is holding a tight grip on the money supply and is not afraid to raise interest rates to choke off excess demand. The economy itself is slowing, making the job so much easier. Finally, there is no evidence of escalating wage pressures which would push costs up.

The producer inflation will not disappear soon nor will it quickly fall to zero. But the fears of a hyperinflation are not warranted. We forecast producer prices to rise 4.7% this year and 3.7% in 1990. ☐



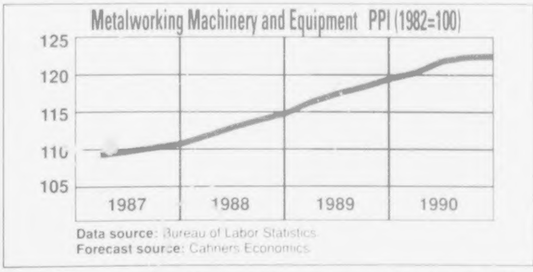
Data source: Bureau of Labor Statistics
Forecast source: Cahners Economics

**PPI for finished goods will slow its recent rise and finish this year at 4.7% above last year's level.**



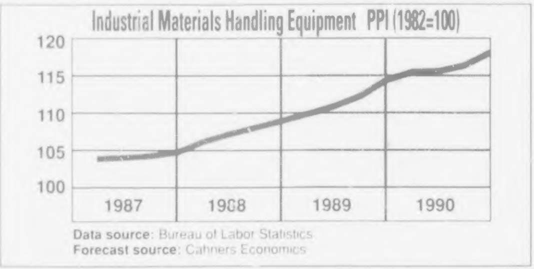
Data source: Bureau of Labor Statistics
Forecast source: Cahners Economics

**Prices of electrical machinery have been flat since 1986 due to new, cost-saving technologies and import competition.**



Data source: Bureau of Labor Statistics
Forecast source: Cahners Economics

**Inflation for metalworking machinery will accelerate to 4.0% this year and 3.2% in 1990.**



Data source: Bureau of Labor Statistics
Forecast source: Cahners Economics

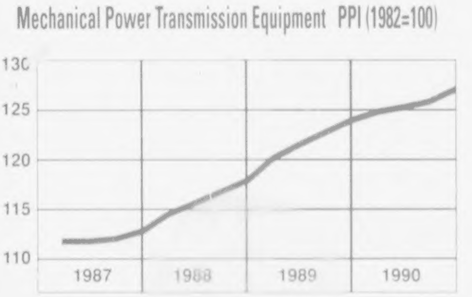
**We forecast prices of industrial material handling equipment to climb 4.0%, both in 1989 and 1990.**

# SUPPLY OUTLOOK

## Intermediate Materials Prices Moderate

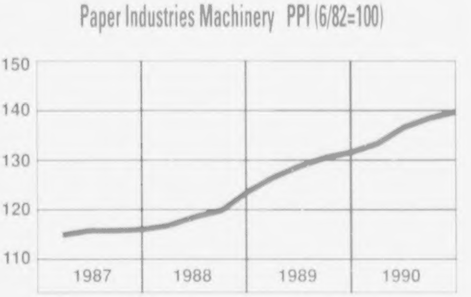
After advancing about 0.8% a month on average during the first quarter of 1989, the intermediate goods price index moved up 0.4% in April. Prices for intermediate goods other than foods and energy showed no change following many months of steadily rising prices, and the foods and feeds index turned down; the energy goods index, however, climbed even more than in other recent months.

There was a sharp reversal in the index for durable manufacturing materials, which went down 1.3%, as opposed to advances of at least 0.9% in 5 of the 6 preceding months. This is yet another indication that inflation is not rampant.



Data source: Bureau of Labor Statistics
Forecast source: Cahners Economics

**After several years at an inflation rate under 3%, prices for power transmission equipment will grow over 5% in 1989.**



Data source: Bureau of Labor Statistics
Forecast source: Cahners Economics

**Paper industry machinery will register an inflation rate of over 8% this year as demand outstrips supply in this booming process industry.**

---

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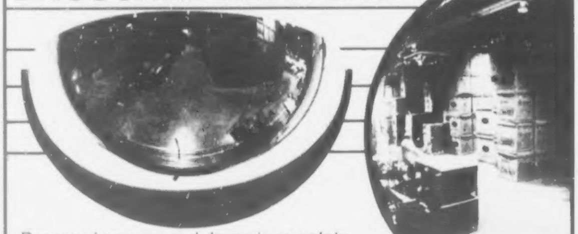

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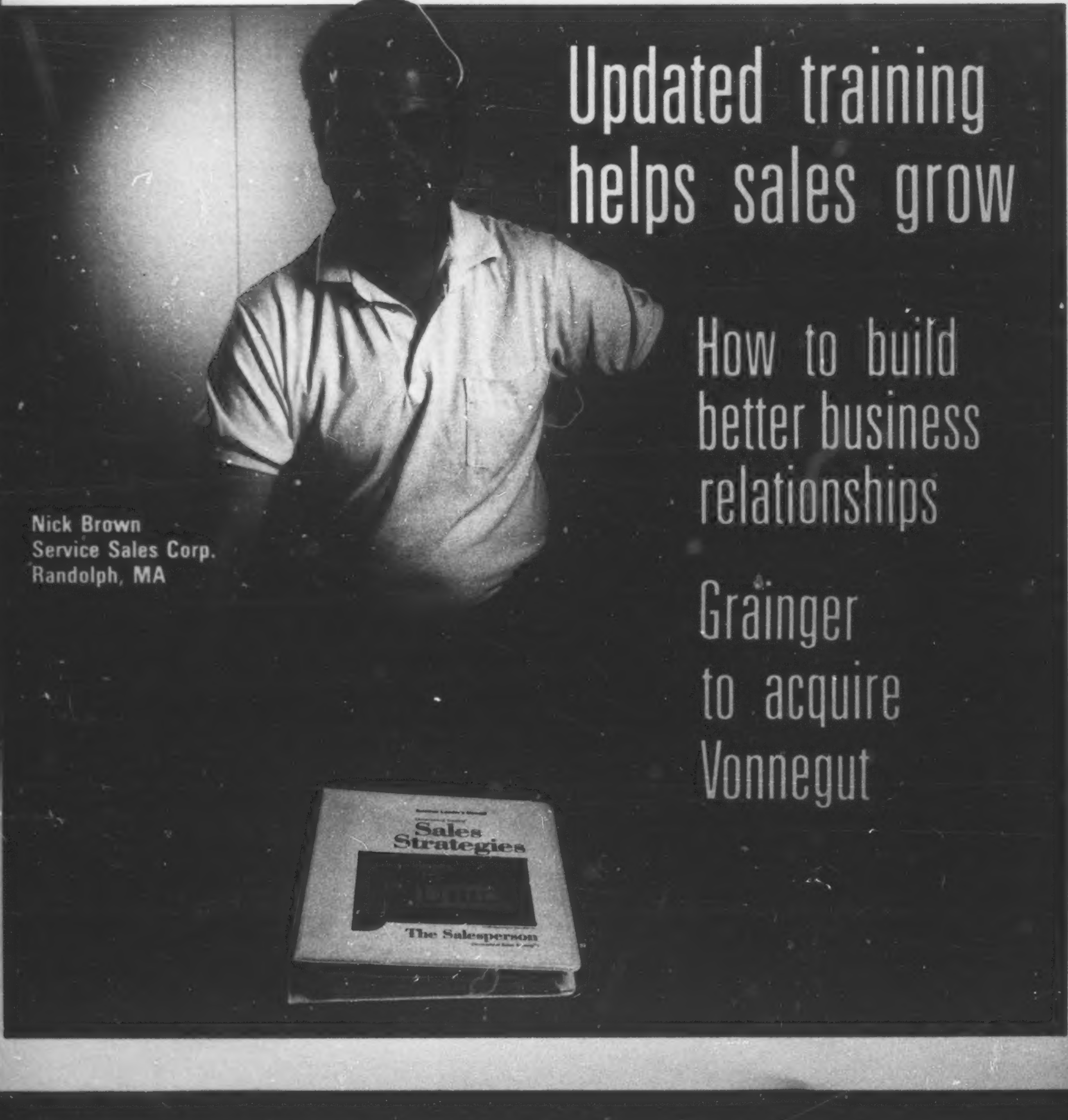
**SPECIAL:**

**Clifton reviews first T.I.D.C.**



## Updated training helps sales grow

## How to build better business relationships

## Grainger to acquire Vonnegut

Nick Brown
Service Sales Corp.
Randolph, MA

Sales Strategies
The Salesperson

# Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 78, NO. 8 AUGUST 1989 A CAHNERS PUBLICATION

Nick Brown pursues suppliers aggressively to get his people the sales and product training they need.

Cover photography by Dave Bradley

SELLING

### 24 Sales training + partnering = sales growth

Distributors and manufacturers, working together, have devised programs that help sales staffs mix the right selling skills with needed product know-how.

EXCLUSIVE ANALYSIS

### 32 How to develop a better business relationship

Being candid—early, often, at all levels, and on all issues—is a tactic distributors and manufacturers recommend for long-term, productive and profitable relationships.

CONVENTION FOLLOW-UP

### 37 Distribution is talking global

Canadian membership in I.D.A. and foreign supplier participation in the venerable I.D.C. *Booth Program* are only two signs of distribution's expanding horizons.

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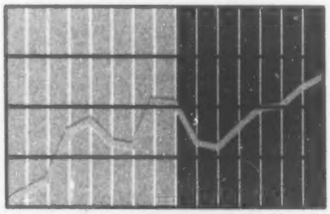
MANAGEMENT

**23 Inside Distribution**
End users have a "Magic Touch" when it comes to implementing new ideas.

**69 Business Report**



Moderate growth for 1990.

**71 Supply Outlook**
Inventories starting to rise.

**76 Clifton's View**
International business conditions impact distributors.

SALES & MARKETING

**41 Strictly for Sales**
Lessons learned in team sports lead to sales paydirt.

DISTRIBUTOR'S UPDATE

**7 At Press Time**
U.S. expands bolt probe; Sun shines in Canada; ID One installs new officers.

**11 News**
Grainger buys Vonnegut; PTDA sets 30th annual meeting; Morse Tool marks 125th year; FPDA convention to explore partnerships.

**42 Association News**
Solidifying partnerships; *Just-in-Time*; back to basics; barcoding.

**45 Calendar**

**72 Advertisers' Index**

PROFITABLE IDEAS

**47 Computers**
Forecasting inventories makes good business sense.

**49 Product Spotlight**
Brushes enhance full-line MRO offerings.

**53 Profit Makers**

Special section devoted to advertisers' products and merchandising tools.

**63 Sales Aids**
Recent brochures, specification sheets and catalogs from suppliers.

**72 Business Staff**

**74 Classified Marketplace**

# BUSINESS REPORT

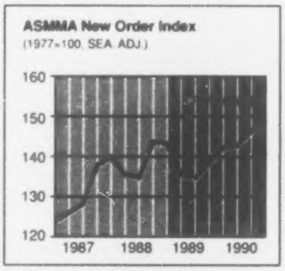
BY KRIS BLEDOWSKI

# Moderate growth forecast for 1990

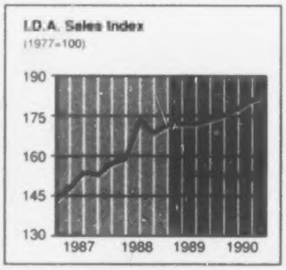
## *Interest rates and wages will stimulate output*

As the first half of the year came to a close, there were indications that that interest rates have peaked and are beginning to decline. Three-month Treasury bills have dropped one half of a percentage point over the past two months. So far, favorable trends in the financial markets have not stimulated the real sector. On the contrary, employment growth has slowed down, retail sales and industrial production have been flat, and housing starts have been the worst in years.

These favorable conditions in the financial markets will translate into gains in the real sector with some lag. Vigorous growth in economic activity this year will give way to slower growth in 1990.


**ASMMA New Order Index**
(1977=100, SEA. ADJ.)

**Data source:** ASMMA
**Forecast source:** Cahners Economics

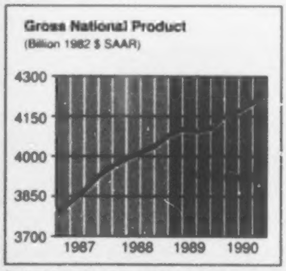

**I.D.A. Sales Index**
(1977=100)

**Data source:** I.D.A.
**Forecast source:** Cahners Economics

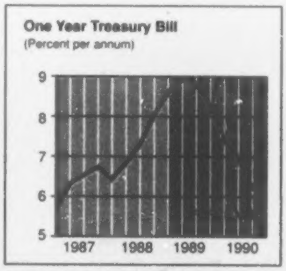
Our own forecast calls for 2.5% real growth in the economy this year on an annual basis, and 2.2% growth next year. Even though one might interpret this as a drift downward, the numbers show significant improvement in virtually all areas of the economy during the first half of 1990 as compared to the last half of this year. Business investment and exports will also improve.

In addition to lower cost of capital, the cost of labor has also been growing less rapidly. In spite of indications that the labor pool is shrinking—particularly in entry-level positions—increases in employee compensation have been moderate. The employment cost index, which measures monthly wage and benefit cost increases in manufacturing, increased by an annualized rate of only 3.7% during the past 12 months. At this time last year, the index was up 4.7%. Inflation-adjusted employee compensation was actually down 0.5% during the first quarter. Wage costs for all workers in goods producing industries rose only 3.1% during the past year, down slightly from last year's 3.4% increase. Wage costs for union labor increased at an even slower rate of 2.5%—about half the rate of increase for non-union workers. These mild gains for union labor in fact account for nearly all of the moderation shown in compensation this year.

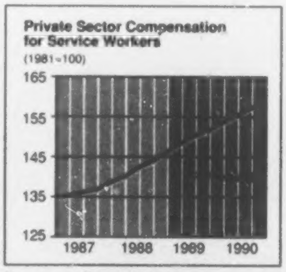
All this indicates that moderate increases in prices of productive factors will further stimulate output in manufacturing in 1990-1991. Growth is bound to be modest, but no recession or inflationary spiral is likely. ☐


**Gross National Product**
(Billion 1982 $ SAAR)

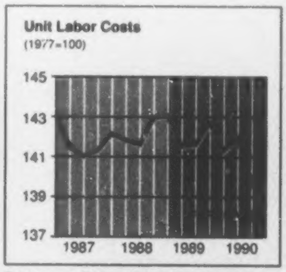
**Data source:** Department of Commerce
**Forecast source:** Cahners Economics


**One Year Treasury Bill**
(Percent per annum)

**Data source:** Federal Reserve Board
**Forecast source:** Cahners Economics


**Private Sector Compensation for Service Workers**
(1981=100)

**Data source:** Bureau of Labor Statistics
**Forecast source:** Cahners Economics


**Unit Labor Costs**
(1977=100)

**Data source:** Bureau of Labor Statistics
**Forecast source:** Cahners Economics

| | SALES | | | RECEIVABLES | INVENTORY | |
|---|---|---|---|---|---|---|
| (1977=100) | May 1989 | Apr.. 1989 | May '89 vs May '88 % change | May 1989 days | May 1989 % increase | May 1989 % decrease |
| **TOTAL** | 184.4 | 207.1 | 18.6 | 44 | 4.3 | 4.8 |
| **EAST** | 158.8 | 184.3 | 16.8 | 54 | 4.1 | 5.4 |
| **SOUTH** | 200.3 | 203.7 | -2.2 | 35 | 5.0 | 4.5 |
| **CENTRAL** | 174.4 | 172.7 | 32.9 | 40 | 4.1 | 4.8 |
| **WEST** | 228.7 | 241.6 | 20.1 | 58 | 4.3 | 4.3 |

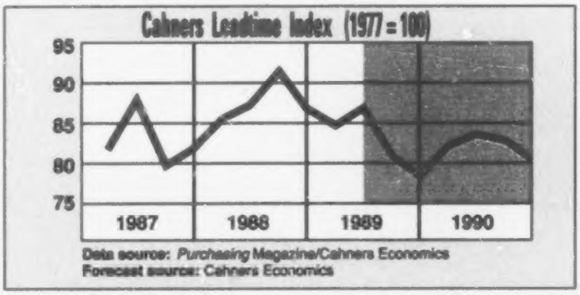
SOURCE: Industrial Distribution Assn.

# SUPPLY OUTLOOK

BY KRIS BLEDOWSKI

# OEM inventories starting to rise

## *Intermediate materials are also high*



Cahners Leadtime Index (1977 = 100)

**Data source:** *Purchasing* Magazine/Cahners Economics
**Forecast source:** Cahners Economics

Changes in inventory are important variables to watch when predicting turning points of a business cycle. Rising stocks of inventory can be attributed either to anticipation of future sales or to signs of excess supply.

Inventories in the OEM sector are now rising. This rise comes after two years of inventories being kept fairly stable. In fact, when factoring inflation in, a real stock of goods produced but not sold may have actually declined. For example, in current dollars, inventories of fabricated metals declined 1.5% in 1986 and rose only 0.6% the following year, while stocks of nonelectrical machinery declined 8.2% and 4.8%, respectively.

These dwindling stocks of inventory did not lead to a recession because shipments were booming, stimulated by foreign demand and capital spending at home. Consequently, the inventory-shipments (I/S) ratio (number of months it takes to liquidate the stocks) fell, from about 2.3 in March 1986 to 2.0 in December 1988. Inventory levels gained dramatically in the first four months of this year. However, this increase was accompanied by flat shipments. This sent the I/S ratio sharply higher.

Our forecast calls for continued high levels of inventory in all OEM sectors through the end of the year, while shipments are bound to gain only marginally. As a result, the I/S ratio will climb more than 3.0% in 1989. In particular, look for continued high inventories of fabricated metals and instruments.

I.D.A. members' sales have been very volatile lately, with monthly figures oscillating 20% or more. The general upward trend will come to an end, however. Last year's national sales' gain of 10% will dwindle to 4.8% this year. The South will fare the best with a 6.9% increase, followed by West with 3.9%. East and Central will finish off 1.7% higher than in the previous year. ☐

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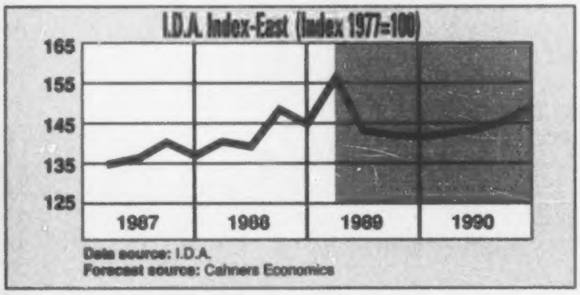
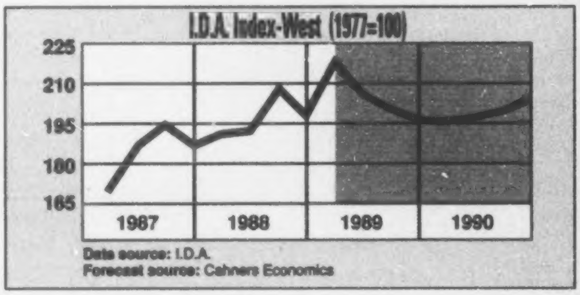


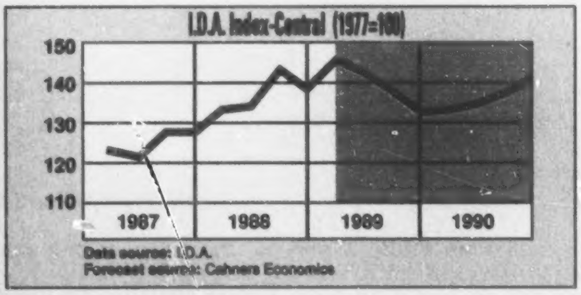
I.D.A. Index-East (Index 1977=100)

**Data source:** I.D.A.
**Forecast source:** Cahners Economics



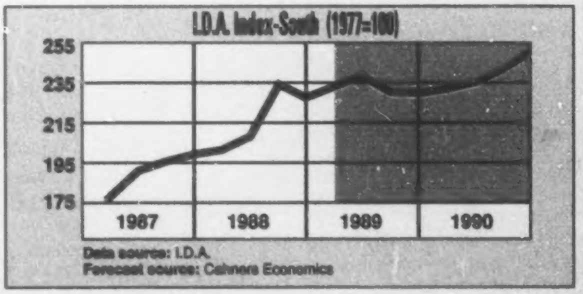
I.D.A. Index-West (1977=100)

**Data source:** I.D.A.
**Forecast source:** Cahners Economics



I.D.A. Index-Central (1977=100)

**Data source:** I.D.A.
**Forecast source:** Cahners Economics



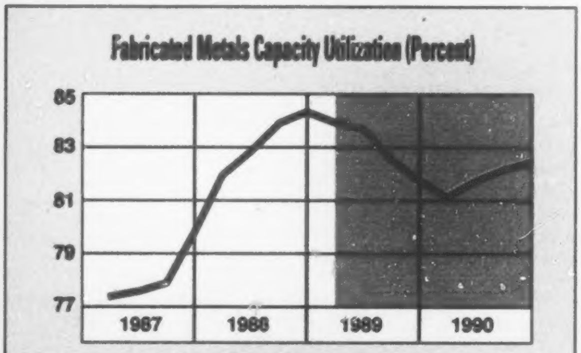
I.D.A. Index-South (1977=100)

**Data source:** I.D.A.
**Forecast source:** Cahners Economics

# SUPPLY OUTLOOK

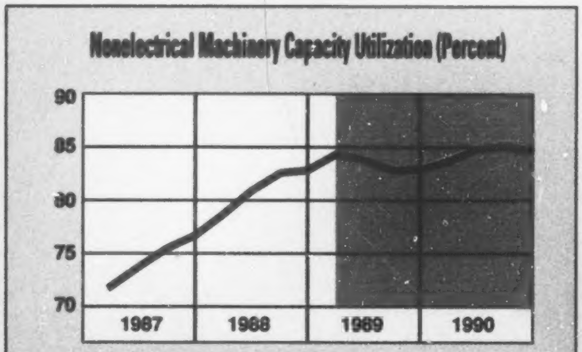
## Prices to rise over next two years

There are numerous indications that the economy is slowing down as previously forecasted. Industrial production has been flat for five months and capacity utilization is on the decline. At the same time, domestic demand is slowing while export sales have been gaining in spite of the ever stronger dollar. Inflation will not get out of hand, price will continue to rise to the tune of 5% per year for the next two years. The index for finished goods less food will advance 4.6% in 1989. One booming sector is durable capital goods. The demand for new equipment will stay high in spite of slower growth.



Data source: Federal Reserve Board
Forecast source: Cahners Economics

**Utilization rates for fabricated metals have been dropping consistently since late last year and will fall further.**



Data source: Federal Reserve Board
Forecast source: Cahners Economics

**Capacity rates in the nonelectrical machinery sector have been gaining due to strong demand for capital goods.**

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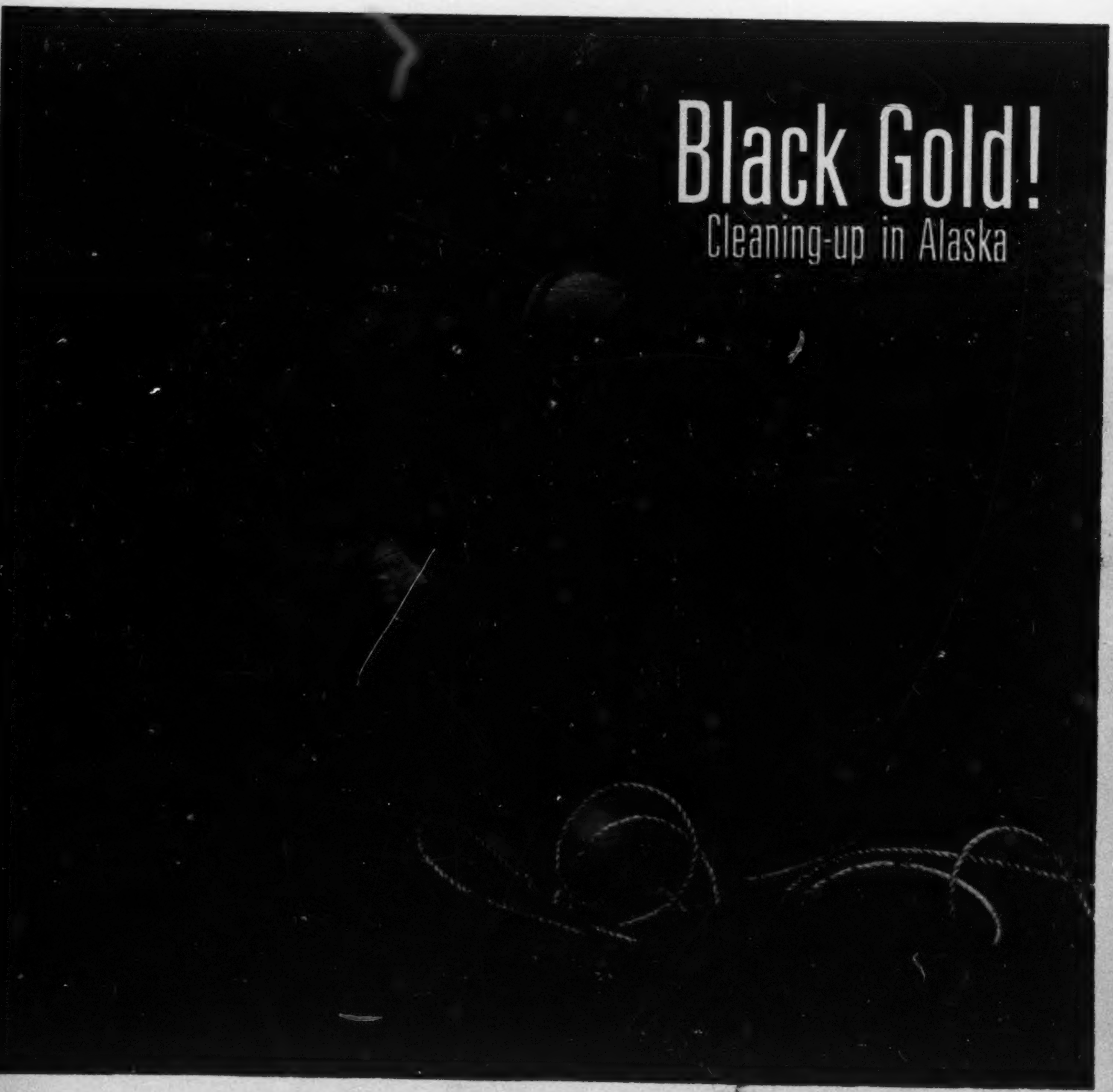
SPECIAL:

**Electrical Market Analysis**



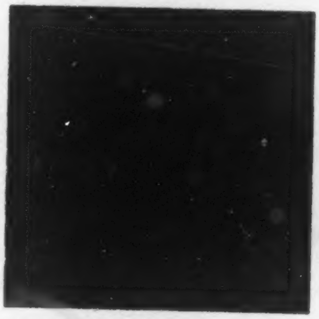
## Black Gold!

Cleaning-up in Alaska

# Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 78, NO. 9 SEPTEMBER 1989 A CAHNERS PUBLICATION



Distribution has played a key role in the clean-up of Alaska's shoreline.

Cover photography by John G.F. Bonnanzio

EXCLUSIVE MARKET ANALYSIS

**33 Power issues light up electrical market**

Combatting power shortages and controlling power costs are two beacons electrical distributors follow to gain market share.

COVER STORY

**40 Black Gold!**

In the wake of the *Exxon Valdez* disaster, Alaska's industrial distributors have discovered just how much a billion dollars can buy.

MANAGEMENT

**51 FAX is good, EDI is better, both are best.**

Distributors who are on the leading edge of implementing advanced communication techniques have found that a combination of FAX and EDI make them most responsive to the market.

SELLING

**57 Persistence pays off with OEM buyers**

This analysis of OEM selling strategies focuses on distributors who clinch sales by combining technical expertise, customer service and product availability.

MANAGEMENT

**31 Inside Distribution**

*ID* goes to Alaska for a first-hand look at distribution after the oil spill; New this month—reader feedback.

**95 Supply Outlook**

Leadtimes ease a bit.

**102 Clifton's View**

The tide is turning as general line houses gain relative to specialists.

SALES & MARKETING

**63 Strictly for Sales**

Celebrity Ed McMahon offers super-selling script guidelines.

DISTRIBUTOR'S UPDATE

**5 At Press Time**

Infomat moves dead stock; NIBCO readies bar codes; Norton on-line with EDI; Irving B. Moore sells assets.

**7 News**

Soft landing jars distribution; I.D.A. Eastern Regional to stress perfect service; Amada Cutting Technologies seeks distributors; Panel on bogus bolts tops NFDA meeting.

**29 Washington**

Family-owned businesses face an 'up-Hill' battle on estate inheritances.

**84 Calendar**

**85 Association News**

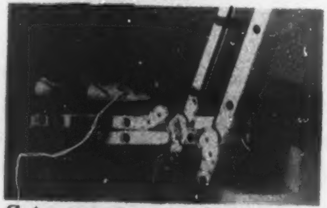
**98 Advertisers' Index**

PROFITABLE IDEAS

**67 Computers**

Affordable, available software supports informed inventory decisions.

**69 Profit Makers**



Get current on products.

**83 Sales Aids**

Recent brochures, specification sheets and catalogs from suppliers.

**98 Business Staff**

**99 Classified Marketplace**

**ID's Exclusive Market Report**

# Power issues light up electrical market

*Combatting power shortages and controlling power costs are two beacons electrical distributors follow to gain market share.*

**By George M. Fodor**
**Managing Editor**

**Electrical customers demand service, and Bernard J. Erickson has O.K. Electric positioned to meet that demand.**

To function competitively, businesses and manufacturers need ample supplies of dependable power. Each blackout, brownout or voluntary cutback during production cycles decimates productivity and diminishes competitiveness. However, despite this ongoing need for quality power, utilities are capable of only a finite generating capacity.

These competing pressures—growing demand for power and limited, closely regulated supplies—are having major impacts on how many electrical distributors do business in 1989.

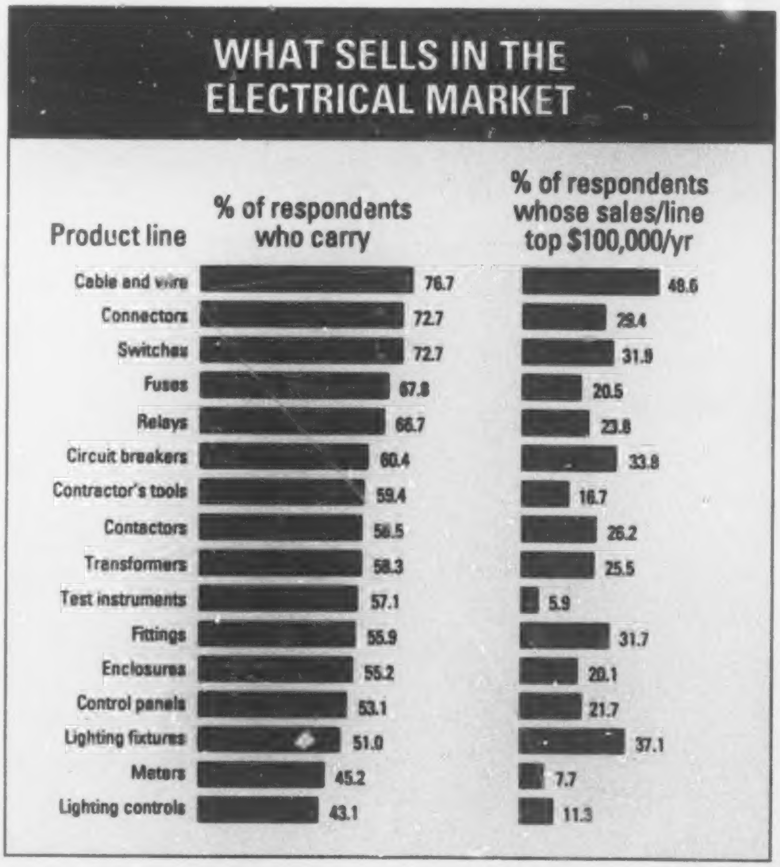
For example, at the recent *Electric '89* exposition, the largest single product category on display included power conditioning equipment such as power line isolators and protectors, surge suppressors, uninterruptible power supplies, and related maintenance products. While many of these units are engineered for use with telecommunication/PBX systems, mainframe computers and automated manufacturing systems, others are tailored to the needs of variable speed devices, security and fire alarm systems and microcomputers.

John J. Mulcair, President of International Power Machines Corp. (Garland, TX), helps put this lower end of the market in perspective when he notes that "only 16% of all computer systems have power backup." That means that 84% of all your customers who use computers are potential buyers of products that condition or control the delivery of electrical power. Other power conditioning revenues can come from customers who use any type of microprocessor-based process control equipment.

Another insight on the workings of the electrical market comes from Ernie Schenk, Manager of Investor Relations for Square D Co., who points out that "in 1988, more dollars were spent on repair, rehabilitation and renovation work than were spent for new construction." (See the accompanying chart for a break-out of products and volumes that electrical distributors say comprise their businesses.)

### LIGHTING UP SALES

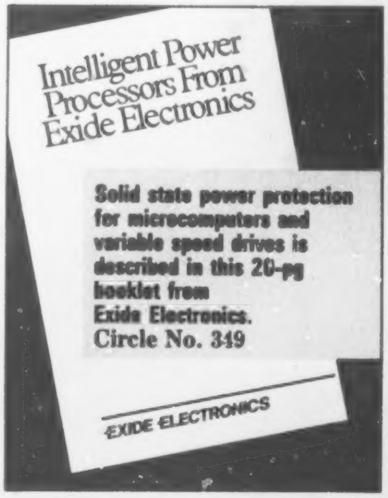
A special segment of this repair, rehabilitation, renovation market—one that's brightening the sales picture for many electrical distributors—is comprised of plants and offices that have yet to upgrade their lighting systems.



*A survey of 1,500 ID readers who stock electrical equipment and related supplies reveals the breadth, depth and diversity of the electrical market.*

As an example of how lighting impacts today's electrical distribution business, Bernard J. Erickson, Executive Vice President of O.K. Electric Supply Co. (Perth Amboy, NJ), explains that his firm has added lighting audits to the list of value added services he offers his industrial and commercial clients. "We have lighting analysis software," Erickson reports, "that runs on an AT-class micro which is equipped with a math coprocessor."

Erickson's lighting audit process involves extensive on-site data collection and subsequent computer-based savings analysis. But the results can be impressive. "We saved one customer nearly $¼ million in power related costs," he says, "including a $15,000 rebate from the supplying utility."



**Solid state power protection for microcomputers and variable speed drives is described in this 20-pg booklet from Exide Electronics.**
**Circle No. 349**

Close and productive relationships are built into the way O.K. Electric conducts their lighting audits. As Erickson explains, the process begins with candid discussion about how much a customer pays for power; what the appropriate demand charges are, if any; and the number of operating hours applicable to each piece of equipment.

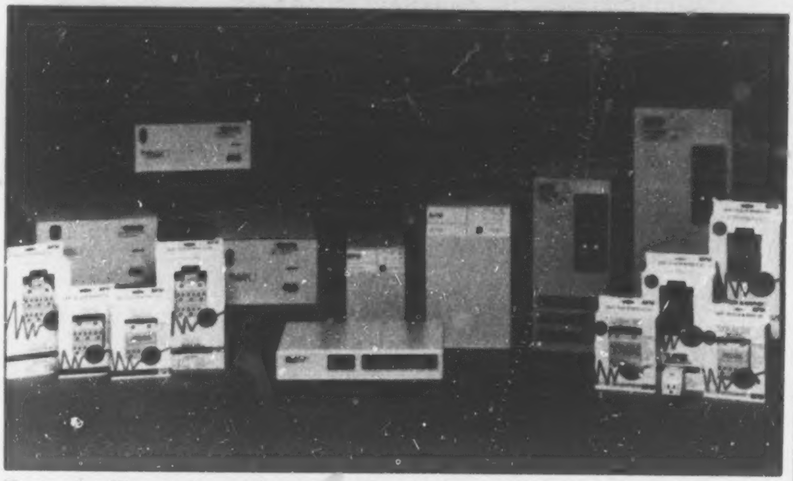
Phase two of the audit—a physical tour of the facility—gets O.K. Electric's salesperson onto the plant floor to take measurements and count and locate existing light fixtures. During this phase the astute salesperson takes advantage of the opportunity to gather additional information and insights on a full range of products O.K. Electric can supply.

After the data collection phases are complete, Erickson continues, the lighting audit moves into the analysis stage wherein savings are scrutinized with regard to maintenance, labor and relamping costs. According to Erickson, two aspects of the overall analysis seem particularly helpful in converting prospects into customers. "We run a cash flow analysis," he says, "that includes payback projections. These come out of a proprietary portion of our analysis software, and having those kinds of figures available makes it easier for customers to justify investing in the work we propose."

### SERVICE REGAINS PRIMACY

Erickson, whose family has been in the distribution business for 40 years, sees the user's willingness to accept lighting audits and pay for implementing recommendations as proof that quality products and complete service influence electrical buying decisions. "In the early '80s," he says, "the market shifted from being service-oriented to being commodity-driven and price conscious. Now, customers are looking for quality and service again."

O.K. Electric's customer base consists primarily of industrial and insti-



**Electronic office equipment is protected by a full range of surge suppressors and power supplies from General Power Corp.**
Circle No. 350

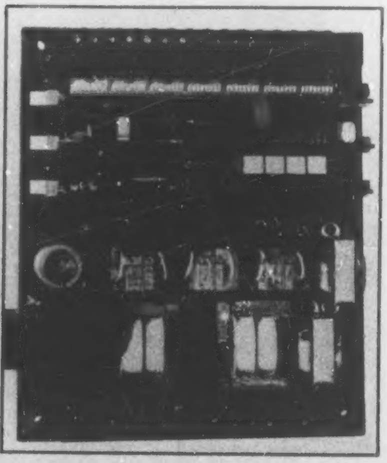
tutional accounts, and the firm's line card touts several motor, motor control, raceway, and power distribution equipment suppliers, as well as lists of tools, testers and anchoring devices.

Erickson reports that a key aspect of O.K. Electric's service orientation is the firm's committment to technical seminars. In recent years, either by working in-house or by co-operating with suppliers, the distributorship has developed seminars on the following topics:

- Wire, cable and the National Electric Code;
- Wiring devices;
- Telephone systems;
- Power protection (uninterruptible power supplies);
- Transient voltage surge suppressors;
- Fundamental lighting design;
- Generating station lighting;
- AC motor theory;
- Adjustable frequency drives;
- Safety and economy;
- Hazardous areas and the National Electric Code;
- Solid state motor controls and variable frequency drives.

Offering seminars, of course, not only fills service functions, but also serves marketing needs. For example, during a recent *Meadowlands Industrial Show*, O.K. Electric put on a series of two- and three-hour seminars. Erickson reports that during one morning session alone, only "ten of 110 attendees" were representatives from existing customers.

That's 100 new contacts in a single seminar, and because these new contacts showed up at the seminar out of their own self interest, they presumably arrived ready to respond positively to any sales and marketing messages that Erickson built into his presentation.



**Microprocessor control panels have two outputs for use with ASCO automatic transfer switches.**
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**PLUGGING IN SYSTEMS**

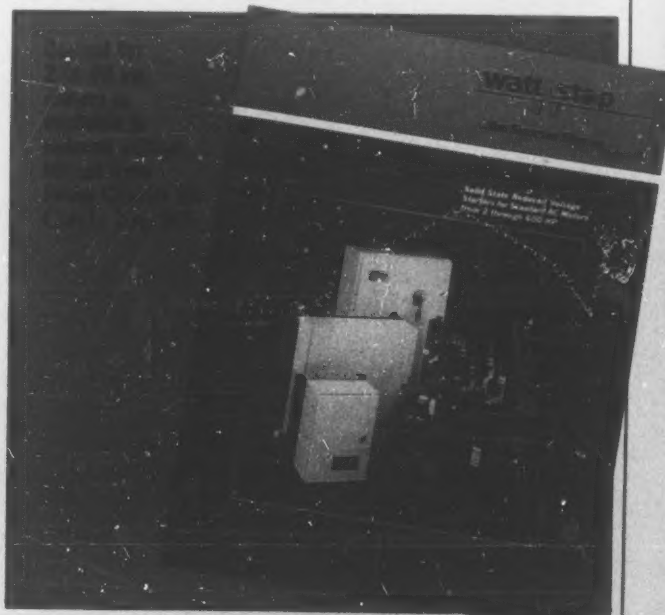
O.K. Electric's service philosophy extends even to the way the firm designs systems contracts to meet specific customer needs. Erickson says that this "tailor-made" approach to systems contracting has served the company well for more than 20 years. In fact, he says, systems contracts now account for about 25% of O.K. Electric's overall business.

"A lot of distributors approach systems contracts strictly on the issue of lowest price," Erickson argues. "What we try to do is offer the customer a consultation on what we feel is the best method for reducing customer inventory and paperwork."

O.K. Electric's view of systems contracts, Erickson says, involves five parts. The first item, he says, is determining how the customer orders. This means finding out which type of order form is used, and whether orders are run through facsimile machines or an electronic data interchange (EDI) system.

Next on the list, he continues, is evaluating the customer's inventory situation. The idea here, Erickson says, is to determine useage patterns and to identify items which the customer can eliminate altogether from his inventory. For example, this initial investigation may reveal that since O.K. Electric stocks an ample supply of 'D' batteries on the shelf, there is no need for the customer to stock a large quantity of 'D' batteries, especially if weekly useage is small and O.K. Electric delivers within 24 hours anyway.

Once the products to be covered



by the systems contract are specified, the third task on Erickson's list involves deciding which order entry system is best for the customer.

Earlier this year, O.K. Electric implemented the EDI 2000 option of the ADP Distribution 2000 management package. This gives the distributorship the ability to work with that growing list of customers who have recently implemented advanced computer-to-computer communication systems.

On the other hand, Erickson continues, "we don't impose any set format or system on a customer. We're set up to communicate with facsimile machines, through the mails, or over the telephone. We work to meet the customer's needs."

At this stage, O.K. Electric creates a computer file of part numbers for the specified materials. For each customer who chooses the EDI option, Erickson provides a 40 Mbyte tape that contains a contract-specific listing of that customer's prices which the distributorship holds firm for a set period.

After the contract has run for six months, O.K. Electric generates a detailed useage report. "Many end users don't know what they have on their shelves," Erickson says. "Our useage reports give each customer a handle on the items that he or she can ultimately eliminate from his or her inventory."

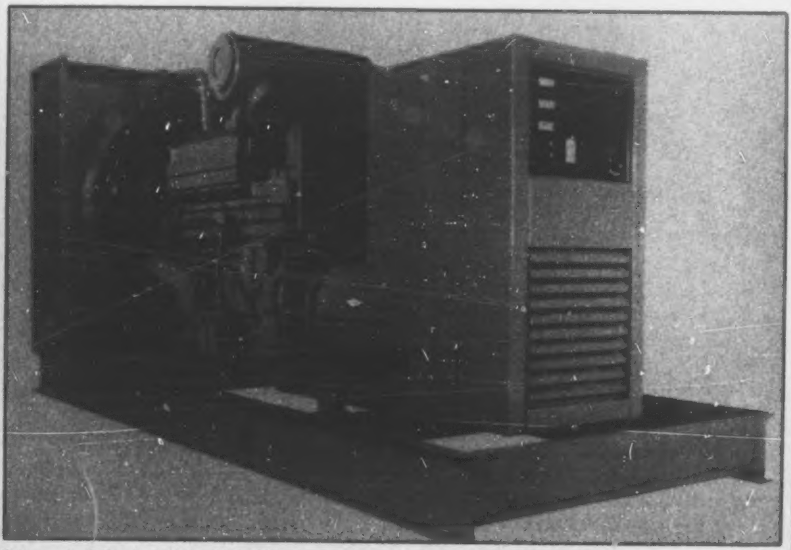
A fifth and final aspect of O.K. Electric's approach to systems contracts focuses on technical support. Erickson points out that all his salespeople are technically trained and must visit systems contract customers each week. A major part of the salesperson's job is to monitor and analyze all aspects of the account and determine new products that will help the customer reduce or control operating costs.

And to help the sales staff do its job well, O.K. Electric invests heavily in product and sales training. For example, Erickson says, each of the firm's six outside salespeople average 120 hours, or three full weeks a year, in product training and technical sales seminars. Each of the eight inside salespeople, he continues, spends about 60 hours, or 1½ work weeks learning about what to sell and how best to sell it.

'Our cash flow analyses include payback projections.'— Erickson

In summarizing this five-pronged approach to servicing systems contracts, Erickson notes that "O.K. Electric is not limited to selling on price alone. Our high level of service, constant team input, and the fact that we can fill orders on a 24-hour basis combine as the best return on investment a customer can receive."

Erickson is adamant about the



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value of service and technical support that are part and parcel of each systems contract O.K. Electric administers. The customer who saved $¼million and received a rebate from the public utility is a systems contract account which buys about $250,000 worth of material a year from O.K. Electric.

When queried by the customer's purchasing department about pricing levels, Erickson produced figures that, for sake of discussion, assumed someone came in and cut prices 3% below then current levels. On $250,000 worth of volume, the math would suggest that O.K. Electric's prices were $7,500 high for the year. This is precisely one-half of the rebate the customer got from its power utility, not to mention the accrued operating savings that derived from Erickson's lighting audit and savings resulting from reduced inventory; introduction of new, less costly products; and reduced downtime.

'Only 16% of all computer systems have power back-up.'—Mulcair

O.K. Electric, having committed itself to providing a full range of value added services, positions the firm, in Erickson's view, to prosper into the '90s. He believes that the Arthur Anderson report, *Facing the Forces of Change*, is correct in its projection of fewer distributors supplying more product to individual customers.

On the other hand, Erickson says that O.K. Electric will be working with the same number of vendors that they work with now, though "some of the names will change. We'll be looking for vendors who will work with us as we probe for new market niches."

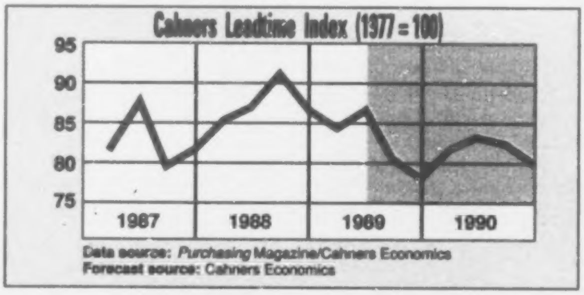
In other words, O.K. Electric is one distributorship that does not seek to become all things to all users. On the contrary, the Perth Amboy, NJ firm intends to strengthen its role as specialist, one which is fully qualified to help customers get the most economy, reliability and quality out of the commercial power that drives industrial operations. ☐

# SUPPLY OUTLOOK

BY KRIS BLEDOWSKI

# Supply conditions ease a bit

*I.D.A. members' sales continue to grow*


Cahners Leadtime Index (1977 = 100)

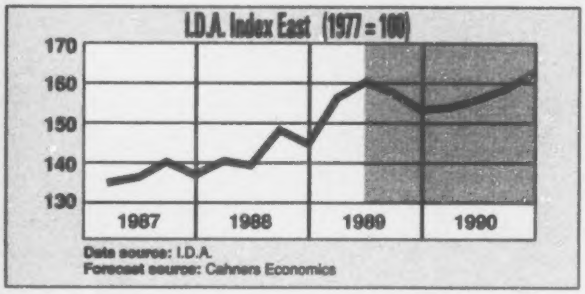
Data source: *Purchasing* Magazine/Cahners Economics
Forecast source: Cahners Economics

Supply conditions have eased somewhat since the beginning of the year reflecting the overall slowing of the economy. The Cahners composite leadtime index of 125 materials, which reached its peak in the second and third quarters of last year, has been falling ever since. This year, leads will be 5.8% shorter than in 1988, a welcome respite before the economy rebounds in 1991.

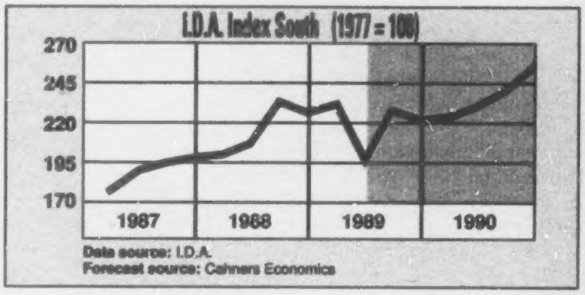
Some materials, like portable power tools and machine tools, continue to have record-long delivery terms. Not surprisingly, both categories peak late in the business cycle and are now experiencing growth in strong double digits. Others, like jigs and fixtures, and forgings, still experience long leads, with little likelihood of shortening. The majority of products, however, will see declining delivery schedules. Leadtimes for fasteners are down from over 8 weeks in the third quarter of 1988 to about 7.5 weeks now. And leadtimes for conveyors have dwindled from over 10 weeks 15 months ago to just under 8 weeks today.

The pattern of receivables oscillates around the average of 40 days with no discernible trend. The average inventory change has exhibited no discernible movement in intensity during the past several months. However, inventory increases have become much smaller in the West, while the South has been growing from about a 1.0% increase in January to 4.9% in June. Lower increases in inventory would indicate strong economic activity and inventory decumulation.

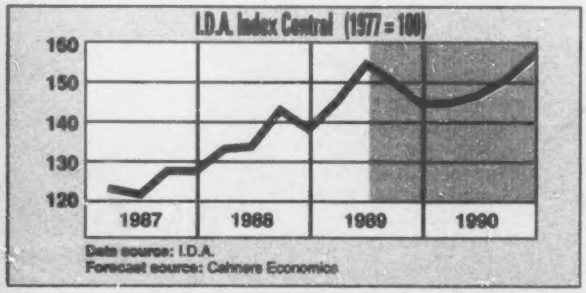
I.D.A. members' sales continued to rise at a record pace in the first half of 1989. Compared to the same quarter a year ago, the figure for the West was up 16.5%; Central (+15.4%), and East (+15.4%). After a strong increase of 15.9% in the first quarter, sales in the South were down 5.0%. ☐


I.D.A. Index East (1977 = 100)

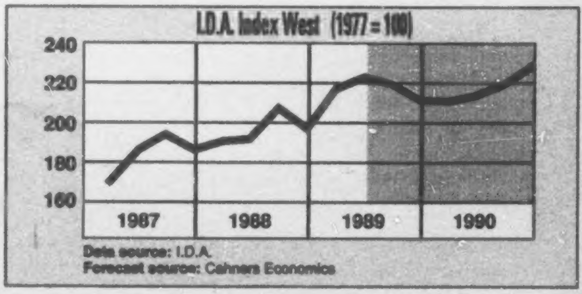
Data source: I.D.A.
Forecast source: Cahners Economics


I.D.A. Index South (1977 = 100)

Data source: I.D.A.
Forecast source: Cahners Economics


I.D.A. Index Central (1977 = 100)

Data source: I.D.A.
Forecast source: Cahners Economics


I.D.A. Index West (1977 = 100)

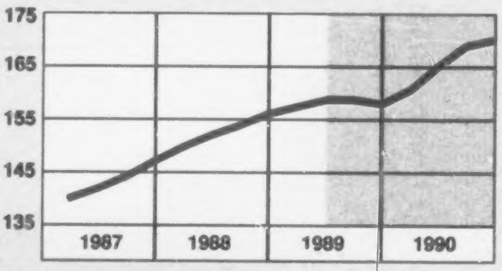
Data source: I.D.A.
Forecast source: Cahners Economics

# SUPPLY OUTLOOK

## OEM market continues to show strength

After gaining 9.5% in 1988, shipments of the five OEM industries will show a respectable 5.4% growth this year. Next year's advance will slow to an annual rate of only 3.8% before the sector surges again at a 9.7% clip in 1991. This robust performance amid signs of rapidly falling general economic activity is not surprising given the underlying factors. While the strength of fabricated metals, nonelectrical machinery and transportation equipment during the past two years was mainly based on domestic investment demand, the most recent expansion has been based on export orders.

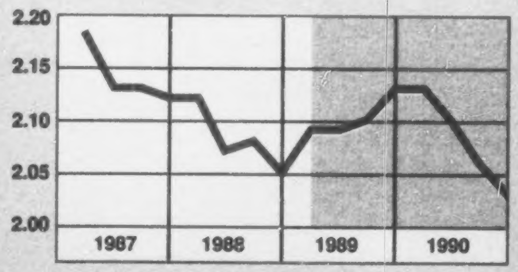
OEM Industries Industrial Production Index (1977 = 100)



**Data source:** Federal Reserve Board
**Forecast source:** Cahners Economics

**Output of OEM industries shows a decreasing growth rate but will finish 1989 3.4% above the level a year ago.**

OEM Industries Inventory-Shipments Ratio



**Data source:** Commerce Department
**Forecast source:** Cahners Economics

**Inventory-to-shipments ratio has not risen much for OEM, in the past few months, oscillating around 2.0 to 2.1.**

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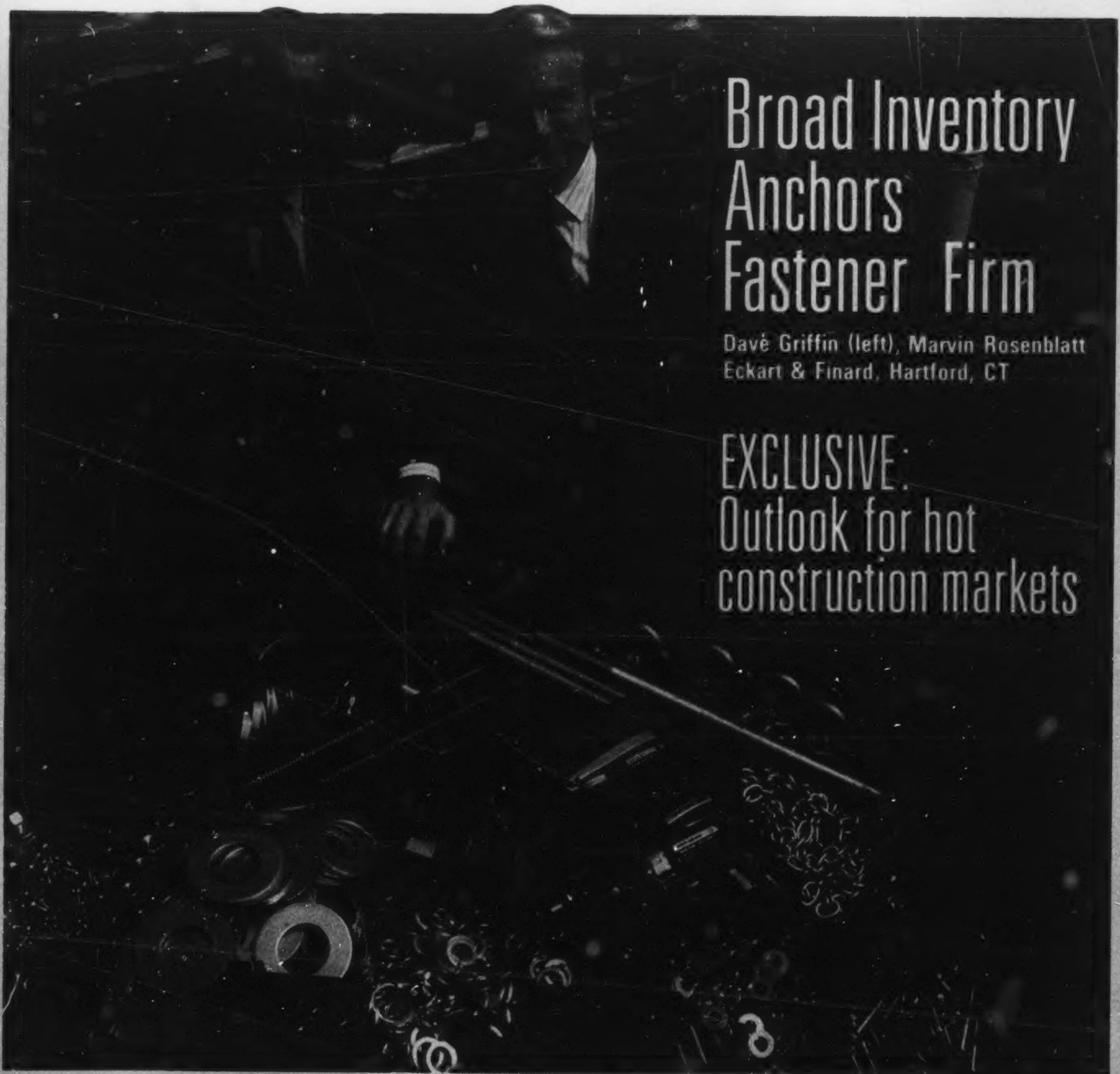
SPECIAL:

## STAFDA Convention Preview



## Broad Inventory Anchors Fastener Firm

Dave Griffin (left), Marvin Rosenblatt
Eckart & Finard, Hartford, CT

## EXCLUSIVE: Outlook for hot construction markets

# Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 78, NO. 10 OCTOBER 1989 A CAHNERS PUBLICATION

Dave Griffin and Marvin Rosenblatt covet their reputation for having that 'hard-to-find' fastener.

Cover photography by Peter Silvia

MARKET ANALYSIS

### 27 America's hottest construction markets

Shifting populations among sunbelt and frostbelt states create new challenges and opportunities for construction distributors.

FASTENER REPORT

### 32 Broad inventory anchors fastener firm

Tenacious, enthusiastic selling keeps turning Eckart & Finard's 60,000-item fastener and accessories inventory.

DISTRIBUTOR PROFILE

### 38 3-pronged sales approach yields 1,000% growth

Sound planning, solid service and strong relationships with customers and suppliers form the bedrock upon which Manny Meyer has built his business.

SPECIAL: THE ALASKAN CLEAN-UP, PART II

### 45 After the Gold Rush

*ID* returns to Alaska and examines the future of Big Oil in the aftermath of the *Exxon Valdez* disaster. Can distributors look forward to a boom in the oil patch?

## MANAGEMENT

**25 Inside Distribution**
Finding the 'right' employee.

**101 Business Report**

Upturn projected for machine tool shipments.

**103 Supply Outlook**
Purchasing managers hold inventories steady.

**110 Clifton's View**
Single sourcing on the rise.

## SALES & MARKETING

**53 Strictly for Sales**
Review of state-of-the-art, step-by-step techniques.

## DISTRIBUTOR'S UPDATE

**7 At Press Time**
Ferguson wins GE contract, ISA offers new twist to MRO, Widell opens Calif. plant.

**9 News**
STAFDA sets 13th annual conference; FPDA adds manufacturers; Distributors implementing EDI and bar coding; Study says bolt imports rise.

**55 Association News**

**57 Calendar**

**106 Advertisers' Index**

## PROFITABLE IDEAS

**59 Computers**
What to look for in desktop publishing.

**61 Product Spotlight**
Industrial hose options.

**63 Profit Makers**

Check these highlights of products your customers buy.

**89 Sales Aids**
Up-to-date spec sheets, brochures and catalogs.

**105 Business Staff**

**108 Classified Marketplace**

the program, he said.

"The IMC is the only industry event that provides plant and design engineers, OEM's, distributors, maintenance specialists, and other end users with an in-depth understanding of how all three motion control technologies can more effectively interface," Berey said.

Kicking off the IMC conference as the show's keynote speaker will be Frank Bauchiero, president of the Warner Electric Div. of Dana Corp. and vice president of Dana Corp.'s North American operations. Bauchiero's talk will explore motion control's role in keeping U.S. manufacturing globally competitive.

Bauchiero's presentation will be followed later that day by a series of introductory educational seminars. They will include sessions on software driven motion control, the mechanics of motion for the nonmechanical engineer and fluid power for the non-fluid power engineer.

Other programs include sessions on selecting and applying electronically controlled fluid power systems, applications for digitally regulated DC drives and the fundamentals of programmable logic controllers. A series of case histories on how various companies have successfully combined the technologies will also be featured at the conference.

For more information on the IMC, call either the National Expositions Co. at (212) 391-9111 or the show's sponsors, the Power Transmission Distributors Assn. at (312) 825-2000 or the Fluid Power Distributors Assn. at (215) 564-3484. ☐

# Distributors moving toward EDI and bar coding

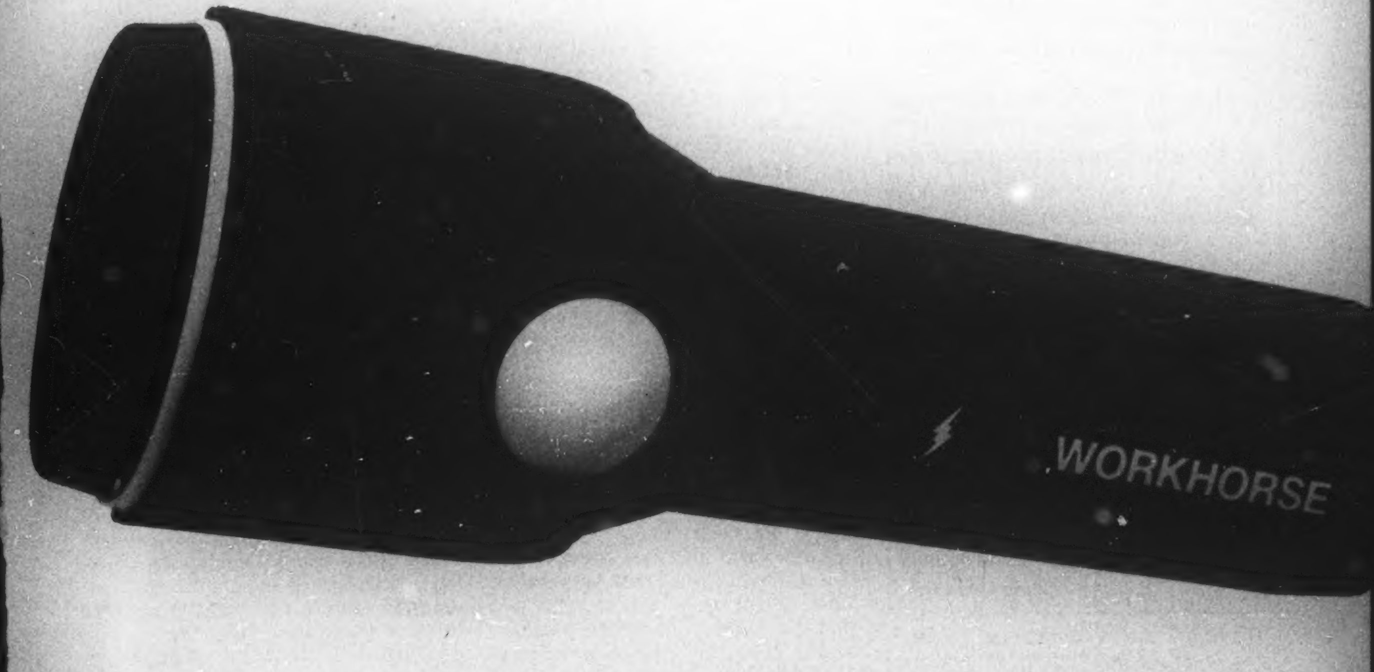
ATLANTA, GA—A Touche Ross & Co. study says that nearly 40% of industrial distributors surveyed use electronic data interchange (EDI) with customers, primarily to transmit purchase orders.

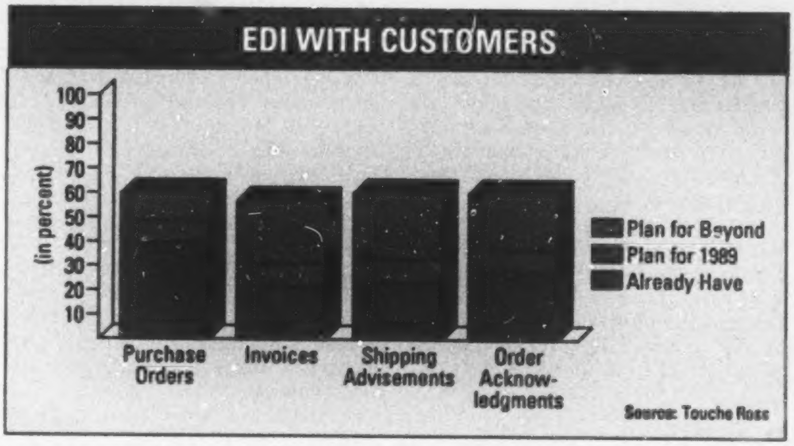
Project Manager Paula Larson-Charles, said that the study also finds that an additional 35% of the respondents surveyed plan to implement EDI during the next few years (see EDI charts).

Larson-Charles pointed out that while distributors tend to be moving quickly to implement EDI, less than 5% use bar coding for receiving, and about 10% barcode products shipped to customers.

On the plus side for bar coding advocates, more than 50% of those surveyed said they are either implementing bar coding in 1989 or plan to install a system sometime during the next few years (see UPC chart).

"The fact of the matter is that with distributors under increased pressure to reduce costs and increase services, those companies that don't add EDI and bar coding systems in the next few years will be at a com-





Source: Touche Ross

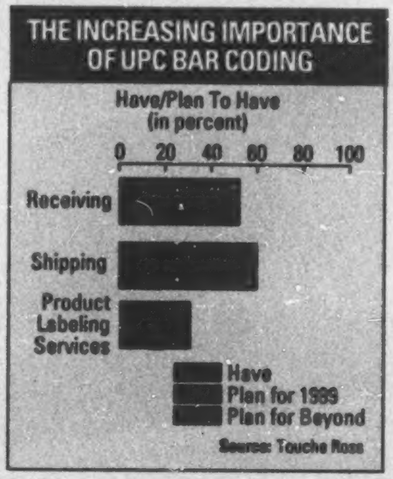
*Nearly 40% of industrial distributors surveyed by Touche Ross said they use EDI on purchase orders for customers.*

petitive disadvantage," Larson-Charles said.

The Touche Ross survey is based on responses from 550 wholesale distributors, 270 of whom are industrial distributors. Companies participating in the survey ranged from less than $20 million in sales/year to well over $200 million/year.

Larson-Charles noted that the purpose of the survey was twofold—to research the impact of technology on wholesale distribution as well as to assess the general state of the industry.

Along with the findings on EDI and bar coding, the survey reported that on average, industrial distributors spend about 1% of sales on management information systems. This is well above wholesale distribution as a whole, which was at about .5%. "What this tells us is that most industrial distributors recognize the challenge to their businesses and are responding appropriately," Larson-Charles noted.



Source: Touche Ross

*While few distributors reported having installed bar coding, more than 50% have plans to implement bar coding in the years ahead.*

In terms of overall outlook for the future, industrial distributors as a group tend to be fairly optimistic. According to the survey, about 93% of the electrical, hardware and machinery respondents expect the economic health of North America to remain the same or improve in the years ahead.

Ninety-seven percent of the companies surveyed are planning for growth—72% through adding new product lines and 46% by adding branches. Over 85% of the respondents expect their sales to increase, with 40% expecting sales increases between 3 to 10%.

Despite such upbeat expectations, the survey also shows the more realistic side of distributors. For example, a majority of those surveyed agreed that the industry's competitive situation will worsen. And only 26% of the respondents believe that business will increase due to the U.S./Canada Free Trade agreement. Most of the respondents who said that the lifting of trade barriers would help their businesses were from the Northeast.

For more information call (404) 586-6716. ☐

# Adams Nut & Bolt hires new marketing and PR specialist

MAPLE GROVE, MN—Distributors have talked for years about the need to become more involved in marketing. While most companies are still talking, Adams Nut & Bolt Co. took a bold step recently by hiring a bonified marketing specialist.

The company hired Ronald Green, a marketing professional with more than five years of experience in public relations and marketing communications, most notably with G.R. Barron & Co. of St. Paul, MN, and Delta Dental Plan of Minnesota.

In his new position, Green will be responsible for creating marketing, advertising and public relations programs. This includes writing a monthly newsletter, developing product catalogs, brochures and fliers, handling all of Adams' media relations, and coordinating the company's trade show efforts.

"I know this sounds like a lot of work," Green said. "But with my solid background in public relations writing and advertising copywriting and production, I'm confident that I can accomplish all of these varied tasks. I look at this new job as a challenge."

This is the plan. With the aid of a desktop publishing system, Green will create a series of direct mail pieces that will go out to more than 5,000 potential and current accounts on a monthly or as needed basis. The accounts being targeted by Adams are MRO and small to mid-sized OEM firms.

Respondents will be contacted by Green, who will screen the prospects and qualify them for the outside salespeople. The hope at Adams Nut & Bolt is that an outside salesperson will only have to make one or two calls to set up the account. All subsequent calls could then be managed by an inside salesperson, with an outside person visiting the account once or twice each year.

According to Mark Alexander, vice president of Adams Nut & Bolt, the company has hired some new inside salespeople and shifted some

# America's Hottest Construction Markets

### *Across the country, STAFDA distributors are feasting on a smorgasbord of new construction projects*

**By John G.F. Bonnanzio and Robert G. Clifton**

The nation's construction distributors are indulging in a wide variety of local conditions which are driving strong growth in residential and commercial markets. Based on conversations with members of the Specialty Tools and Fasteners Distributors Assn. (STAFDA), many businesses credit strong regional sales to primary employment growth in manufacturing; white collar jobs in the service sector; retirement communities; population shifts to avoid high costs and heavy congestion and; "soft tech" business growth such as telemarketing.

In addition, when STAFDA distributors meet next month in Dallas for their annual convention (see p. 9 ), most will discover the rising importance of international trade on their businesses—specifically with Pacific Rim countries. As wave of offshore companies continue to establish offices, warehousing and industrial plants in the U.S., distributors report that new office and housing construction seems to follow, making a good situation even better.

In compiling this list of *ID's Hottest Construction Markets*, data was provided to the magazine by Cahners Economics. In its recently issued report, "Top U.S. Construction Markets For 1990," Cahners monitored the value of building permits between January and May of 1988 and compared them to 1989 data. The resulting percent change in eight different construction markets is the basis for each of the top five rankings. In many instances, percent increases from one year to the next are immense. This is to be expected as one large project could come on the heels of little or no building activity, thereby creating a swift, upward spiral.

By employing this methodology, large geographic areas, such as Los Angeles, Chicago, San Diego, Philadelphia, etc., were intentionally squeezed from the survey. This led to the "discovery" of many smaller, perhaps more profitable markets, that would otherwise be overshadowed by giant-sized cities with far greater competition.

Although many of the municipalities listed are currently experiencing various kinds of construction booms, some will only last the life of a particular project, while others could last years. This ranking of "hot" construction markets (based on Department of Commerce data), is only a snapshot in the life of any city. For additional information on these markets, Cahners Economics sells copies of its construction report for $50. To order a report contact: Gabriella Fodor, Cahners Economics, P.O. Box 51, Newton, MA 02158; or call 617-558-4397.

## Hot construction markets

### NEW RESIDENTIAL
(% increase)

| | |
|---|---|
| **Portland, OR** | 56 |
| Miami, FL | 51 |
| SanFrancisco,CA | 46 |
| Naples, FL | 40 |
| Oakland, CA | 39 |

The lumber business in the Pacific Northwest has snapped back thanks largely to export trade with the Far East. According to June Quigley of International Nail and Staple, new "techtronics industries" are primarily responsible for **Portland's** steadily improving economy. In turn, a residential boom in single family homes and apartments has meant brisk business for distributors.

### RETAIL CONSTRUCTION
(% increase)

| | |
|---|---|
| **Rochester, NY** | 199 |
| Lake County, IL | 170 |
| Buffalo, NY | 169 |
| Knoxville, TN | 163 |
| Ft Lauderdale/ Pompano Beach, FL | 130 |

More than just malls are going up in **Rochester.** The city's "Can of Worms," its so-called downtown highway system, is amid a 3-year facelift, while a new sewer system slowly snakes its way north toward Lake Ontario. Mark Credit of Harmco Fastener says that the city's growth is broad-based and, despite tough times at Kodak, a Rochester mainstay, the photography company continues to expand its facilities.

### NEW NON-RESIDENTIAL
(% increase)

| | |
|---|---|
| **Knoxville, TN** | 126 |
| Ft. Worth,TX | 114 |
| NewYork,NY | 109 |
| Honolulu, HI | 101 |
| Cleveland, OH | 79 |

Tennessee is quickly becoming a hub for distribution services of every variety. Given its single-day trucking access to much of the Sun Belt, the state is ideally situated to serve the nation's population shift. With good infrastructures and expanding auto manufacturing, **Knoxville** distributor S.G. Walker of AAA Rental Center credits a TRW-Japanese venture and another by Nippondenzo for steadily rising sales.

### INDUSTRIAL CONSTRUCTION
(% increase)

| | |
|---|---|
| **Dayton, OH** | 1126 |
| Scranton, PA | 606 |
| Orlando, FL | 346 |
| Rochester, NY | 278 |
| Sacramento, CA | 233 |

A 40-mile stretch of I-75 linking Cincinnati with **Dayton** is filling in with new businesses (some of it high-tech), reports Gary Naylor of Dayton Winfastener. On the one hand, Panasonic has recently opened a TV tube manufacturing plant in Troy. On the lower-tech side, says John Golub of Dills Supply, Honda is still expanding in Marysville, about 60 miles away. In addition, Elamo, an aircraft tubing plant, has resurged since its purchase by GE.

## Shifting population rebuilds construction market

For a time, it seemed as if the nation's Rust and Frostbelts were on the verge of resurrection. Since the dollar's slide in 1985, export business has soared keeping industrialized states busy with new orders, new equipment, comfortable wages and even new housing. With the ability to eke out a living in factory towns once gasping for breath, workers in the Midwest and Northeast decided to stay put—at least for a while.

Although population gains in the Sunbelt have continued to outpace all other regions during the 1980s, this experience has not been universal. In oil dependent states such as Louisiana, Oklahoma, Mississippi, Texas and Colorado, the second half of the decade has been less than prosperous. At the same time, California, Arizona, Nevada, Georgia and Florida have been absorbing much of the nation's migration and immigration.

These large population shifts have had an enormous impact on residential and commercial construction, and will continue to affect the types of products distributors sell from region to region. For example, during the 1970s Sunbelt cities traditionally experienced more new nonresidential construction than reconstruction, while the Frostbelt's mainstay were additions, alterations and conversions to pre-existing buildings. In the 1980s, this trend was reversed. As the Frostbelt's economy expanded, so did its need for new construction, while the Sunbelt found reconstruction a cost effective alternative. However, for the 1990s, the new construction/reconstruction mix is expected to resemble the 1970s pattern, as the Frostbelt's growth slows, and the Sunbelt's demand for new construction expands.

One distributor enjoying the effect of the Sunbelt's burgeoning construction business is Dennis Shields of San Diego's Star Tool and Supply Co. Shields reports that company sales multiplied at a 25% compound annual rate between 1974 and 1987, and after two "flat" years, will again reach that mark in 1989.

Keeping in mind that California's population rose 19% between 1980 and 1988, San Diego's construction market is more easily understood: last year the city ranked third nationally in new residential construction; tenth in office construction; ninth in retail and industrial construction, and; sixth in hotel construction. Viewed another way, it would take all the new residential construction in Milwaukee, Kansas City, Ft. Worth, Daytona Beach and Ft. Myers to equal San Diego's building boom.

To paint a broad picture of the nation's construction market, the map (right) illustrates just how fickle the building trades can be.

### OFFICE CONSTRUCTION
(% increase)

| | |
|---|---|
| **DesMoines,IA** | **1478** |
| Albuquerque, NM | 720 |
| Cleveland, OH | 658 |
| Portland, OR | 338 |
| Lake County, IL | 265 |

Although Irv Bradley of Bradley Fastener & Supply only services **Des Moine's** residential market, he confirms that the city's building activity is on the rise while wood framing is "on hold." No longer dependent on farming, Des Moines is second only to Hartford, CT as an insurance mecca. Currently under construction: the Bankers Life Insurance Co's. 44-story complex—the city's largest building.

### HOTEL CONSTRUCTION
(% increase)

| | |
|---|---|
| **Akron, OH** | **3659** |
| Scranton, PA | 1819 |
| Lancaster, PA | 1026 |
| Dallas, TX | 726 |
| Oakland, CA | 466 |

Ranked a mere #201 in the nation for hotel construction in 1987, **Akron** has since skyrocketed to 37th-place. What's the city's main attraction? Hard to say, but thanks to a 1200 room Sheraton under way in an Akron suburb, more people than ever will find a place to stay. This is good news for Harry Schindler of Concrete Cutting Systems, who also notes brisk business in residential, commercial and industrial markets.

### NON-RESIDENTIAL REMODELING
(% increase)

| | |
|---|---|
| **Las Vegas, NV** | **377** |
| Ft. Worth/<br>Arlington, TX | 122 |
| San Antonio, TX | 115 |
| Birmingham, AL | 95 |
| Memphis, TN/<br>AK, MS | 78 |

People from around the country are finding that desert real estate is cheaper than elsewhere, and there's plenty of it. Says James Feeney of E & M Industrial Hardware, retirees are flocking to the Del Webb development in Summerlin, which some expect to grow bigger than Sun City. In **Las Vegas**, the nation's largest hotel, the Excalibur, will eventually sport some 4000 rooms overlooking, what else? The desert.

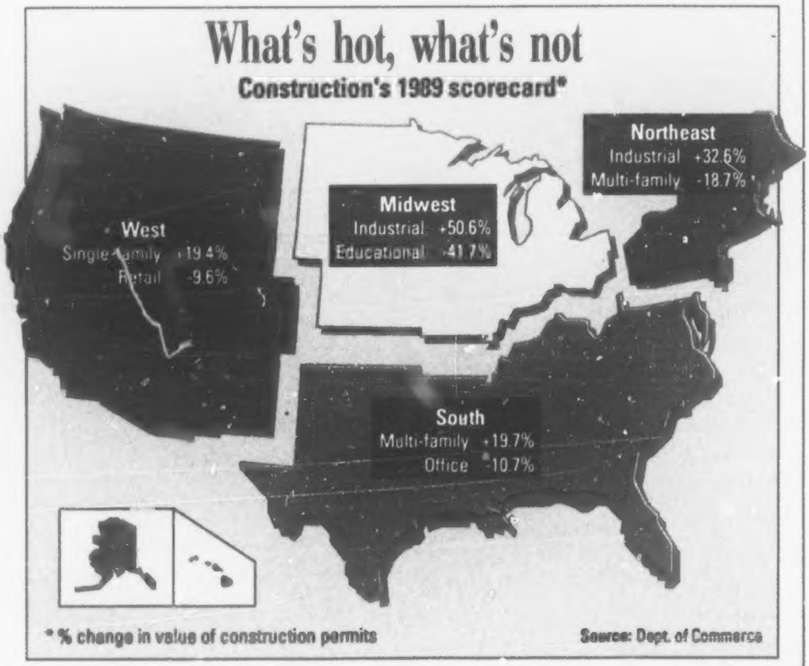
### RESIDENTIAL REMODELING
(% increase)

| | |
|---|---|
| **Richmond, VA** | **81** |
| Raleigh, NC | 74 |
| Honolulu, HI | 53 |
| Detroit, MI | 42 |
| Anaheim, CA | 35 |

Pat Bevilla of BETCO Supply Co. says that good schools, mild weather and foreign investment have made a lot of people take a closer look at Virginia, and in particular **Richmond.** During the first six months of 1989 $2.3 billion was invested in the state creating 9,000 new jobs and the need for more housing. U.S.-Japanese joint ventures include three new factories turning out everything from copiers to soup mixes.

Unlike other industries, rising tides do not always lift all of construction's various fortunes equally high. What dictates a particular region's destiny are shifts in population, employment and income growth, all set in the context of an area's current supply of commercial or residential inventory stock.

With that in mind, 1989's construction activity has shaped-up as follows: residential building in the **Northeast** is widely thought to have peaked (highway and bridge reconstruction is booming, with billions of dollars in projects inevitable); home building, nonresidential and institutional building in the **Midwest** has been flat; the **South** has bottomed-out with stagnant residential and generally weak office construction, and; the **West** continues to outpace the rest of the nation with a strong showing in single-family construction/reconstruction as well as nonresidential reconstruction. —JGFB



What's hot, what's not

Construction's 1989 scorecard*

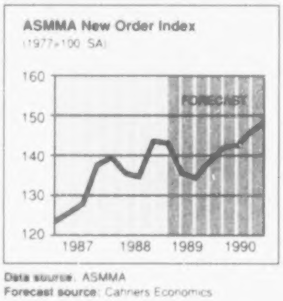
* % change in value of construction permits

Source: Dept. of Commerce

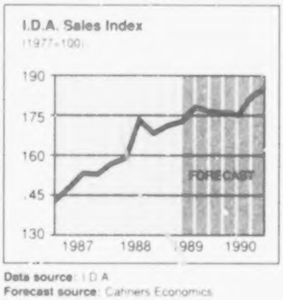
BY KRIS BLEDOWSKI

# Machine tools shipments peak

## *Distributors should target the market*


ASMMA New Order Index

Data source: ASMMA
Forecast source: Cahners Economics


I.D.A. Sales Index

Data source: I.D.A.
Forecast source: Cahners Economics

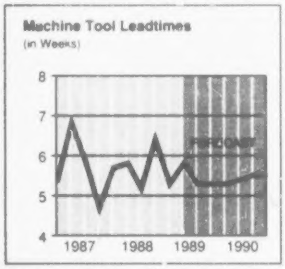
Shipments of machine tools peak late in the business cycle, usually 24 to 30 months behind the 'leading indicator', a group of economic sectors which anticipates upturns and downturns of the economy. So it is not surprising that orders of machine tools were up 70% in late 1988, precisely during the time when most industries started to slow. Since then, cutting tool orders dropped sharply from an annual rate of $2.7 billion in December 1988 to $2.4 billion in June of this year. Forming tools peaked a bit later and the slowdown for this category has just begun.

While orders are decelerating, shipments gain every month. Last year's growth rate of 3.8% will skyrocket to 30% in 1989 as the huge order backlog is filled. We forecast sales of both cutting and forming tools to reach $3.1 billion by year end, compared with $2.4 billion last year.

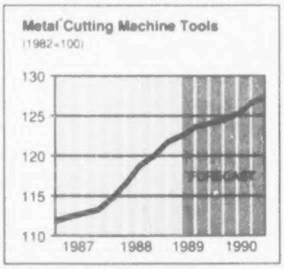
As the machine tool industry scrambles to satisfy the demand, it may be the ideal time for industrial distributors to target this market. Capacity is strained and cannot be easily expanded. Many companies will be trying to work overtime or speed up the production line. Their demand for industrial products is certainly going to increase dramatically. Leadtimes for tools are still high although they have dropped somewhat from the peak of over seven weeks late last year. We forecast leads to stay put at over five weeks through most of next year.

Prices of cutting tools have shot up since the 2.8% annual rate of 1987. Last year's 4.4% inflation rate is going to be topped marginally this year before falling to the 2%+ range in 1990. It is interesting that prices were unchanged for the past three months, signalling a leveling off of capacity pressures. Both wages and materials prices have been moderate lately and are likely to stay that way for the remainder of the year. The inflation rate for forming tools was less pronounced than for cutting tools, in both 1987 and 1988. But, look for wholesale prices for forming tools to rise 4.2% this year.

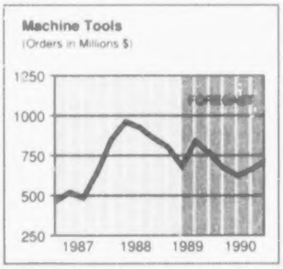
On the machine tool side stable export markets provide the demand when domestic consumers curtail their orders. Still, they will continue to peak late in the cycle, as is the case right now. ☐


Machine Tool Leadtimes

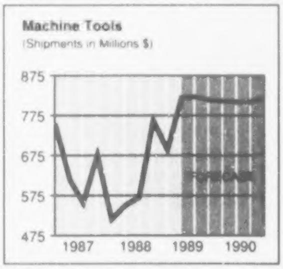
Data source: Purchasing Magazine
Forecast source: Cahners Economics


Metal Cutting Machine Tools

Data source: Bureau of Labor Statistics
Forecast source: Cahners Economics


Machine Tools

Data source: NMTBA
Forecast source: Cahners Economics


Machine Tools

Data source: NMTBA
Forecast source: Cahners Economics

| | SALES | | | RECEIVABLES | INVENTORY | |
|---|---|---|---|---|---|---|
| (1977=100) | July 1989 | June 1989 | July '89 vs July '88 % change | July 1989 days | July 1989 % increase | July 1989 % decrease |
| TOTAL | 175.5 | 164.0 | 8.1 | 43.0 | 4.3 | 4.2 |
| EAST | 161.7 | 167.3 | 13.6 | 49.1 | 2.6 | 3.6 |
| SOUTH | 263.5 | 216.5 | 16.5 | 45.1 | 4.4 | 5.3 |
| CENTRAL | 142.0 | 149.6 | 5.1 | 41.3 | 4.4 | 3.9 |
| WEST | 196.5 | 215.7 | 1.4 | 38.2 | 2.0 | 3.7 |

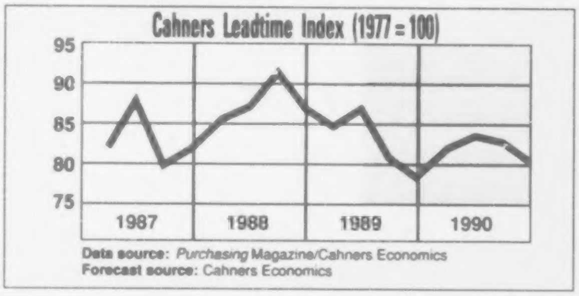
SOURCE: Industrial Distribution Assn.

# SUPPLY OUTLOOK

BY KRIS BLEDOWSKI

# Supply conditions ease a bit

*But capital goods sector is still hot*

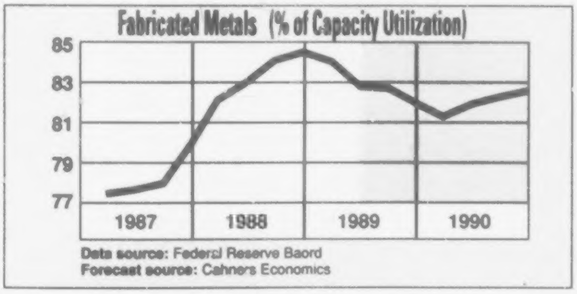


**Data source:** *Purchasing* Magazine/Cahners Economics
**Forecast source:** Cahners Economics

Leadtimes have fluttered over the past few months but the trend is clearly downward. Nearly 70% of the leadtimes reported in July of 1989 were shorter than those reported in July of last year. Over 60% were shorter than in June of this year as well. Out of the 125 categories comprising the Cahners Composite Index, no leadtime increased by more than a week between June and July. In contrast, 11% of the 125 leadtimes tracked fell by more than a week. Leadtimes for most metals, industrial machinery, and components declined overwhelmingly between June and July. Nearly 60% of the purchasing managers surveyed indicated that they are holding inventories steady, and nearly 30% indicated that some inventory liquidation is under way. Cahners leadtime index is expected to continue on this downward path, declining nearly 6.0% this year and 1.0% in 1990.

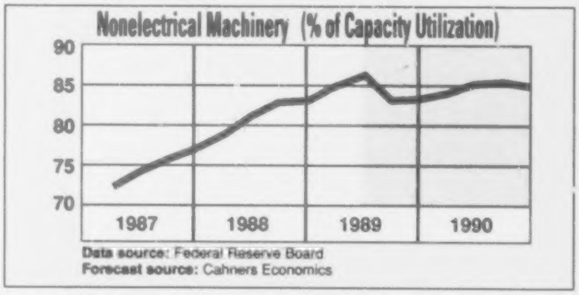
Capacity utilization was unchanged in July after dropping to 83.8% from 84.1% in May. The economy is definitely slowing down, although some sectors which peak late in the business cycle, like capital goods, are still strong. The strongest growth sectors during the second quarter were business fixed investment and trade, continuing the economic growth trend that has been in place for over two years. Business investment continued to expand sharply for equipment while spending on structures declined 10%. Exports of goods and services remained strong.

While there are signs that the economy is cooling off in many industrial sectors, inflationary pressures, common late in the business cycle, seem to be abating. Producer prices fell 0.4% in July after a modest rise in June. Also important is a moderate pace of inflation for intermediate materials, which bodes well for prices at the producer and consumer stages. ☐



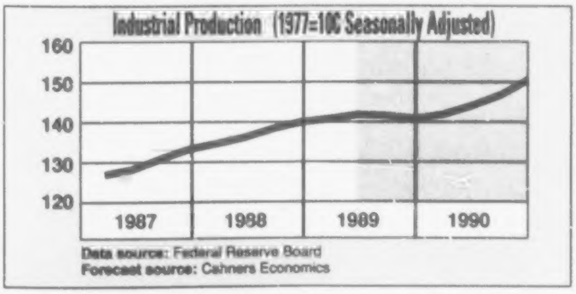
**Data source:** Federal Reserve Baord
**Forecast source:** Cahners Economics

**Capacity utilization eased a bit in the second quarter to 82.7%, down from 83.9% in the preceding period.**



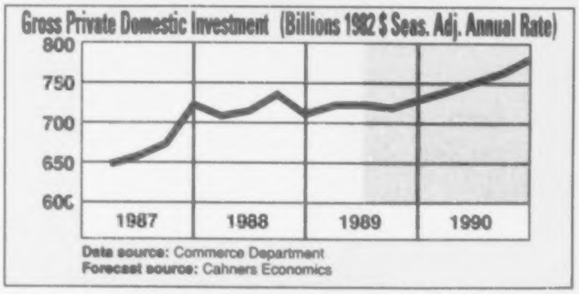
**Data source:** Federal Reserve Board
**Forecast source:** Cahners Economics

**Utilization of capacity for nonelectrical machinery went up to 86.1% reflecting strength of capital goods industries.**



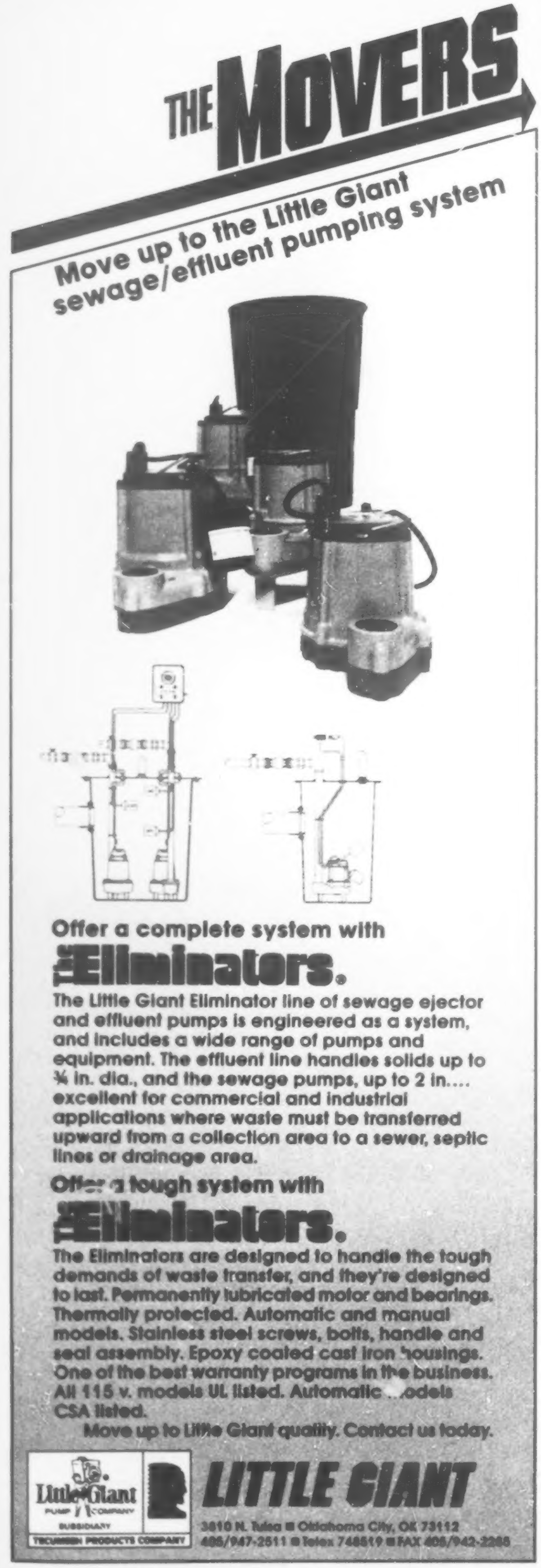
**Data source:** Federal Reserve Board
**Forecast source:** Cahners Economics

**We forecast industrial production to grow only 2.8% this year, but will pick up speed later in 1990.**



**Data source:** Commerce Department
**Forecast source:** Cahners Economics

**Private domestic investment will stay around $720 billion this year, marginally higher than in 1988.**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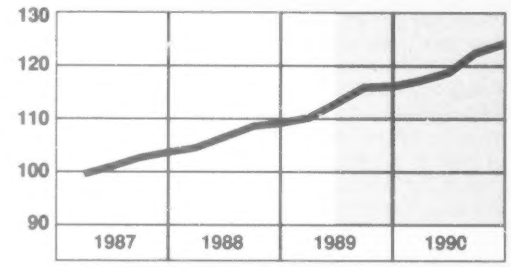
# SUPPLY OUTLOOK

## Intermediate goods prices drop

The 0.2% drop in the intermediate goods price index in July was partly due to a 1.3% decline in the energy goods category, which had inched down in the month before. Prices for intermediate goods other than foods and energy dropped 0.2%, the same as in June. Prices for manufacturing materials continued to decline on a broad front in July. The index for nondurable manufacturing materials fell 0.7% for the second consecutive month. The July decrease was lead by industrial chemicals, plastic resins and materials, and fertilizer materials. Prices were also lower for paper and paint materials.

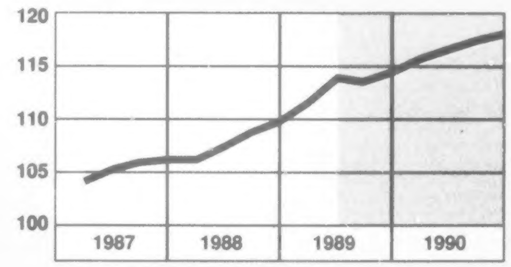
**Intermediate Materials Producer Price Index (1982=100)**



**Data source:** Bureau of Labor Statistics
**Forecast source:** Cahners Economics

**After reaching 5.5% last year, the inflation rate for intermediate materials will inch up to 6.2% in 1989.**

**Finished Goods Producer Price Index (1982=100)**



**Data source:** Bureau of Labor Statistics
**Forecast source:** Cahners Economics

**Inflation at the producer level should not exceed 5.0% this year and decline to just over 3.0% in 1990.**

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